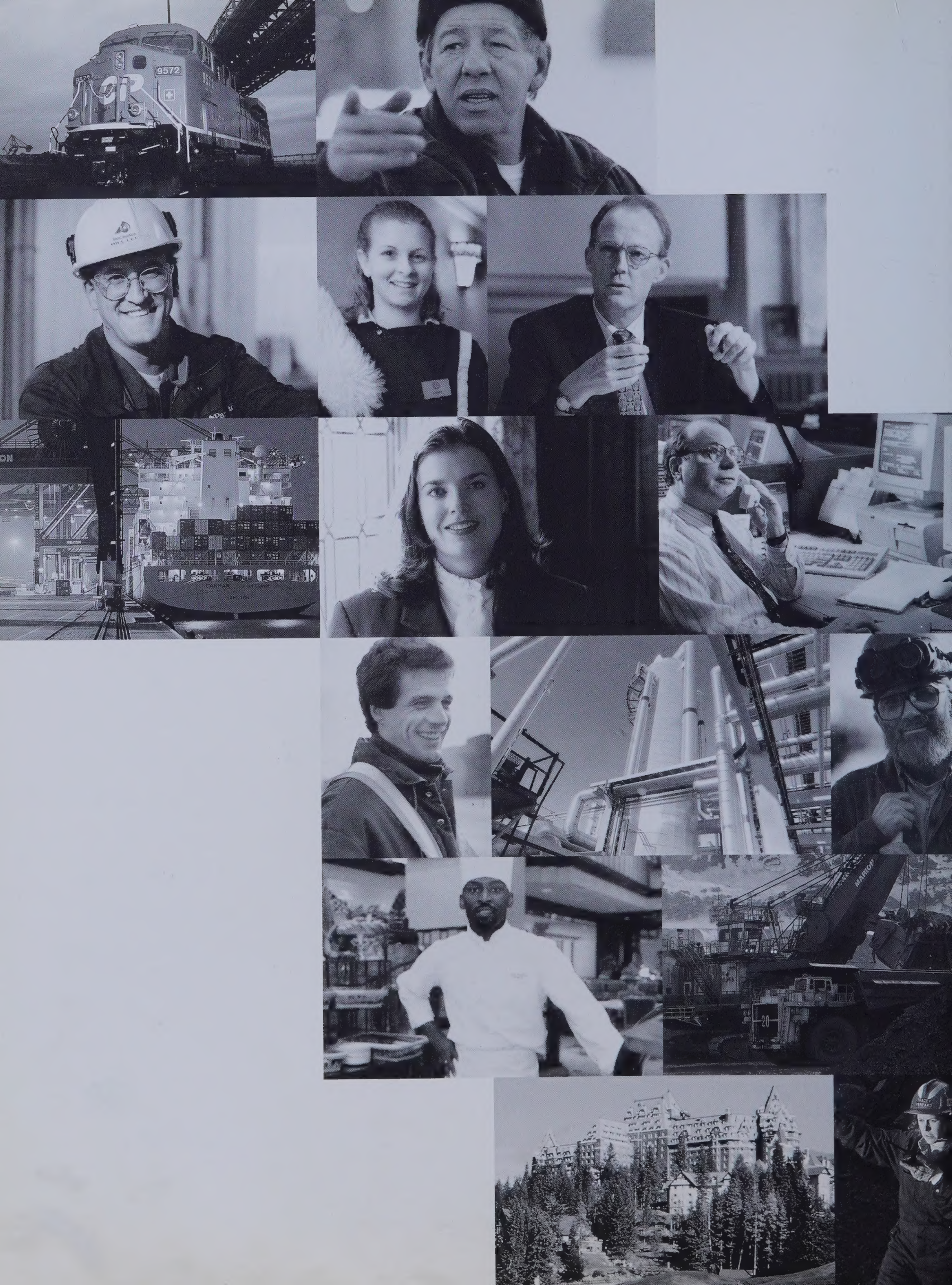
1997 Annual Report

CANADIAN PACIFIC

Energy Transportation Hotels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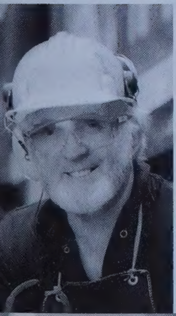
MARION

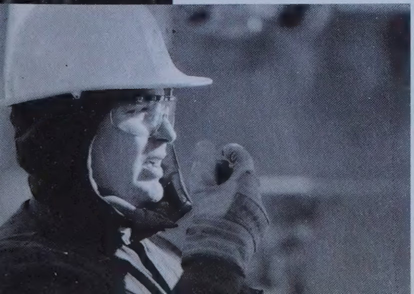
Many Faces, One Great Enterprise

Canadian Pacific presents many faces to the world through its family of companies but in reality we are one great enterprise, unified by common goals and by the attributes that are embodied in our new corporate signature.

Our employees, more than 30,000 strong, share a progressive outlook and a focused approach to their jobs that enable them to make the most of the solid asset base and the many growth opportunities that exist in each of our industry-leading core businesses. They are at work around the clock and around the world – on trains and in rail yards, at container ports and on the high seas, at oil fields and coal mines, at hotels in busy city centres and spectacular resort settings.

Our new corporate signature, the first change in visual identity for the company in almost 30 years, reflects the vitality and strengths of our businesses and our people. It combines classic typography with a vibrant symbol that projects global involvement, focus and leadership. The letters C and P can be seen as a secondary image and the tag line "Energy Transportation Hotels" identifies our core business activities.





CANADIAN PACIFIC
Energy Transportation Hotels

1998 Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, April 21, 1998 at the Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada at 11:00 a.m., Toronto time.

Contents

1997 – A Year of Achievement

Sold over $2 billion of assets

- Laidlaw – $1 billion.
- 11 business hotels to REIT – $887 million.
- Non-core rail assets – $465 million.

Expanded core businesses

- Completed $2.5 billion capital program.
- Acquired CS Resources – $466 million.
- Acquired Lykes, Contship and other assets – $232 million.
- Opened $160 million wollastonite mine in Mexico.

Improved financial performance

- Revenue up 13%.
- Operating income up 20%.
- Net income from continuing operations up 13%.
- Cash flow up 10%.

Increased financial strength

- Net debt to equity ratio of 18:82 vs. 27:73.

Accelerated share buyback program

- Over 7 million shares repurchased.
- 340.7 million shares outstanding at year end.

Building for Today and Tomorrow

In last year's letter to shareholders, I noted that our challenge in the coming year was to build on the momentum and the profitable growth we achieved in 1996. I believe we met that challenge in 1997.

Canadian Pacific is a revitalized company. We have refocused on our core businesses, surfaced value throughout the company and generated profitable growth. Our financial strength has been restored. In 1997, we posted record operating income in four out of five businesses and Canadian Pacific's net income was the highest in its 116-year history. It is a year that we can be proud of and also one that provides a more solid foundation on which we can keep on building our company.

Selling Assets

In 1997, we continued to dispose of assets that were non-core or were not contributing significantly to the bottom line, selling more than $2 billion in assets during the year.

The sale of our equity interest in Laidlaw was completed in July for $1 billion. We received half the proceeds at that time with the balance, represented by installment receipts, to be received in July 1998.

We sold 11 business hotels to Legacy Hotels Real Estate Investment Trust, surfacing the real estate value in these properties while maintaining the integrity of the Canadian Pacific Hotels franchise. We earned proceeds of over $640 million, acquired a one-third interest in Legacy, and will continue to manage the hotels under long-term management contracts. Canadian Pacific Hotels has also entered into an alliance under which Legacy will be its strategic partner in the Canadian business hotel sector.

At Canadian Pacific Railway, there have been significant sales of non-core assets to help fund the railway's aggressive catch-up capital program and to further streamline its network. The railway sold 1,143 miles of track between Kansas City and Chicago and in northern Iowa and southern Minnesota for $380 million. It also monetized the lease on the Molson Centre in Montreal and sold railway lines linking Quebec City, Montreal and Hull for total proceeds of $85 million. In 1996 and 1997 we sold over $4 billion of assets and still succeeded in growing earnings and cash flow.

Building our Businesses

We continued to build our businesses in 1997 through a $2.5 billion capital program and acquisitions in the amount of $700 million.

Canadian Pacific Railway, which is in the middle of a major program to revitalize its network, invested $835 million on new equipment and plant improvements in 1997 and plans to spend over $1 billion in 1998. The railway, through its sale of non-core assets and cash from operations, will be funding these expenditures. A major focus of the program is the renewal of its locomotive fleet. During 1997 and 1998, 181 new AC traction locomotives are being put into service, principally in our bulk commodity business in western Canada. As well, the railway is making a significant investment in information systems, intermodal facilities and track upgrades. Together, these capital expenditures will lower costs, expand capacity and improve service, reliability and asset utilization.

We acquired two shipping companies, Lykes Lines and Contship Containerlines, which operate in niche trade lanes on the North Atlantic and around the world, respectively. The acquisitions expand CP Ships' geographic coverage and create significant opportunities for synergies with our two other shipping lines, Canada Maritime and Cast. With these acquisitions, CP Ships doubled its revenues and carryings, and now ranks as the 16th largest containership company in the world.

PanCanadian Petroleum strengthened its heavy oil operations by acquiring CS Resources, a Canadian company specializing in heavy oil technology and production. CS Resources has a valuable land base, well-developed technologies and significant experience that will help PanCanadian exploit its own large heavy oil holdings. During the year PanCanadian invested over $1 billion and drilled more than 1,600 wells, adding 122 million barrels of oil equivalent of new reserves and replacing more than 156% of 1997 production.

At Fording, we began production at the world's largest wollastonite mine. This facility in northwestern Mexico ultimately will produce 240,000 tonnes of wollastonite products per year. Sales from Fording's existing facility in New York state totalled 100,000 tonnes in 1997. Wollastonite is a non-metallic industrial mineral used in the manufacture of ceramics, plastics, coatings, refractories and construction materials.

Financial Results

Our financial performance improved significantly in 1997. Net income increased over 50% to $1.26 billion, or $3.64 per share, compared with $869 million, or $2.52 per share, in 1996. Net income per share from continuing operations increased 12% to $2.74, compared with $2.44 in 1996.

Revenues increased 13% to $9.6 billion, compared with $8.5 billion in 1996, and operating income increased 20% to $1.8 billion, compared with $1.5 billion in 1996.

Cash flow was up 10% to $2.2 billion and additions to properties totalled $2.5 billion. Proceeds from the sales of Laidlaw and the business hotels enabled us to reduce debt substantially. Our net debt ratio at year-end had improved nine percentage points to 18:82. Net debt at year-end represented only nine months of 1997 cash flow.

Our financial strength leaves us in excellent position to quickly capitalize on attractive investment opportunities should they arise. It also has enabled us to accelerate our share buyback program. During the year we bought back seven million shares, five million of which were repurchased under a new 12-month, 18 million share buyback authorization of August 1997.

Operating Performance

As I noted earlier, four of our five businesses achieved record operating income in 1997. At the railway this was an especially heroic task. In the first quarter, the men and women of the railway faced the toughest winter conditions in 70 years, battling record snowfall and cold that closed the mainline for 26 days. In addition the railway sold over 1,400 miles of non-core track, forgoing the related sales revenue. But despite the difficult start to the year and significant line sales, the railway earned operating income of $668 million before special gains, an increase of $80 million over 1996. Expenses were down 1% while revenues were up 1%. When adjusted for line sales, revenues were up about 6%.

As a major North American railway, Canadian Pacific Railway is regularly compared to its U.S. competitors. As a result, in late 1997, it changed its reporting practices to show its results on a basis more consistent with Class 1 railroads in the U.S. The conversion resulted in a 4% improvement in our operating ratio. The change, coupled with the cost reduction program, revenue growth and rationalization of the network, resulted in an operating ratio in the low 80's.

Fording also had a slow start to the year as its first quarter shipments were affected by severe weather that disrupted rail service. However, by year-end it had achieved record operating income of $197 million, up 20% over the previous year, driven by strong volume growth and improved productivity. CP Ships produced record operating income of $145 million during the year and increased container carryings to 620,000 teus from 480,000 teus, largely due to acquisitions. Canadian Pacific Hotels had another strong year and continued to grow its operating income, with especially strong performance at the business hotels. These three companies, Fording, CP Ships and Canadian Pacific Hotels, today are an increasingly significant part of Canadian Pacific. Their operating income has increased from $110 million in 1992 to $479 million in 1997.

PanCanadian had an outstanding first quarter owing to strong prices, but encountered a number of problems as the year progressed. It had serious operating difficulties in its heavy oil program through the first half of the year which in part led to the acquisition of CS Resources. As well, PanCanadian lost some momentum as a result of efforts devoted to the reorganization into business units. These factors, together with the sale of non-core properties, negatively affected production levels. In addition, weaker oil prices in the second half of the year and widening price differentials between light and heavy crude further reduced earnings. A positive note in the fourth quarter was the significant increase in gas production to 808 mcf/day, representing a 12% increase over the average gas production for the first nine months of the year.

Looking Ahead

Canadian Pacific is well positioned to increase returns to shareholders in 1998. The railway should have a good year as it begins to reap the benefits of its investments. The new locomotives will be the most visible manifestation of these investments but new information systems also will contribute to the company's ongoing success. CP Ships, having doubled its revenues, should make progress with its new acquisitions as the year unfolds. PanCanadian expects higher year-over-year production but will be impacted by lower energy prices. A 5% reduction in Fording's price of high-quality metallurgical coal into Japan effective April 1, 1998 should be offset by increased coal volumes and benefits from operating the new wollastonite mine in Mexico. Our participation in the Legacy Hotels REIT has exciting possibilities. It opens up many additional opportunities for growth through acquisitions and new management contracts.

We will continue to focus our energies and resources on growing our core businesses, improving their competitive positions and expanding internationally from our strong Canadian base. At the same time, we will continue to take advantage of opportunities to surface value from non-core assets. Our goal, over the next couple of years, is to use our strong asset base and substantial financial capacity to significantly increase shareholder value.

Canadian Pacific is a truly national company, one of the few with operations in every province. More than a century ago, our transcontinental railway linked communities scattered across a brand new country, instilling in us a sense of commitment that remains to this day. We believe strongly that we have a responsibility to the communities in which we operate. In 1997, we contributed $4.5 million through the Canadian Pacific Charitable Foundation to charitable organizations, particularly in communities where one or more of the Canadian Pacific companies have a significant presence. In addition, PanCanadian on its own donated $1.5 million.

Many Faces

This annual report, as I am sure you will have noted, features on its first two pages the many faces of today's Canadian Pacific. We are an asset rich company and, when I refer to assets, I don't mean just hard assets such as hotels, locomotives, mines, gas plants and containerships. I also mean the many people who ensure that our hard assets are operated and managed effectively, efficiently and profitably for our shareholders.

We have more than 30,000 employees in the Canadian Pacific family and it was through their efforts that we had the best year in our history in 1997. Many new faces joined our family in 1997 and I would like particularly to welcome the employees from CS Resources, Lykes and Contship. We are pleased they have joined us and I am confident that they and all our employees will make valuable contributions to our continued growth and success.

As our businesses evolve and change, so do our people. Bob DeMone retired at the end of 1997 as chairman, president and chief executive officer of Canadian Pacific Hotels. Under his leadership, the hotel company has grown into Canada's largest and certainly one of its most respected hotel chains.

It was with great sadness that we marked the passing in 1997 of Michel Bélanger who served with distinction on our Board of Directors for more than 11 years. We benefited from his wisdom and wide experience in the public and private sector throughout his term on our Board.

Dr. Lloyd I. Barber, a director since 1983, and A.S. (Peter) Kingsmill, a director since 1984, will retire from the Board at the annual meeting. We thank them both for their significant contributions to the affairs of the Corporation over many years.

David P. O'Brien

Chairman, President
and Chief Executive Officer

February 9, 1998

Financial Highlights

(in millions – except per share amounts)

Income Items	1997	1996	1995
Revenues from continuing operations	$ 9,560.0	$ 8,471.3	$ 7,331.3
Operating income (loss)			
Canadian Pacific Railway	$ 802.1	$ 603.0	$ (695.2)
CP Ships	145.6	110.9	76.9
PanCanadian Petroleum	484.7	474.8	344.4
Fording	197.0	162.5	138.5
Canadian Pacific Hotels	136.3	115.8	96.9
	$ 1,765.7	$ 1,467.0	$ (38.5)
Net income (loss) from continuing operations	$ 946.7	$ 840.0	$ (256.4)
Net income (loss)	$ 1,255.8	$ 869.1	$ (786.9)
Per Common Share			
Net income (loss) from continuing operations	$ 2.74	$ 2.44	$ (0.75)
Net income (loss)	$ 3.64	$ 2.52	$ (2.30)
Cash flow	$ 6.34	$ 5.78	$ 4.71
Dividends	$ 0.48	$ 0.48	$ 0.36
Market price at December 31 (Toronto Stock Exchange)	$ 38.50	$ 36.05	$ 24.88
Rates of Return			
Average shareholders' equity – continuing operations	13.2%	13.1%	(3.9)%
Average capital employed (operating)	14.0%	11.9%	(0.3)%
Financial Condition			
Cash flow	$ 2,189.4	$ 1,991.0	$ 1,609.9
Capital expenditures	$ 2,465.0	$ 1,641.1	$ 1,921.9
Cash on hand	$ 444.4	$ 852.6	$ 1,014.6
Total long-term debt	$ 2,855.6	$ 3,441.8	$ 5,096.4
Net debt	$ 1,779.2	$ 2,589.2	$ 4,081.8
Shareholders' equity	$ 7,573.4	$ 6,727.8	$ 6,129.9
Total assets	$ 17,331.9	$ 15,805.9	$ 16,555.7
Net debt:equity ratio	18:82	27:73	39:61
Common Share Capital			
Average number of shares outstanding (in millions)	345.4	344.4	342.1
Number of shareholders at December 31	41,165	38,525	41,687
Number of Employees			
Average for the year	33,600	34,200	36,100

Q+A

Chairman, President and Chief Executive Officer David O'Brien answers questions about issues facing the company, current initiatives and future directions.

Canadian Pacific's balance sheet is very strong. What are you going to do with this substantial financial capacity?

The improvement in our financial position has been achieved only relatively recently with the sale of a number of significant assets, including our equity interest in Laidlaw, our business hotels to the Legacy real estate investment trust, and the Kansas City and Corn Lines in the railway. During 1998, we expect to use some of our financial capacity to grow our core businesses and improve shareholder returns. We will accelerate the catch-up program under way at the railway and continue the buyback of up to 18 million shares in the 12-month period ending in August 1998. The balance of our financial capacity positions us to fund selective acquisitions to augment internal growth in our core businesses. Acquisitions are by their nature opportunistic. However, we recently completed two value enhancing acquisitions in our shipping business and we are examining other opportunities across our businesses.

Do you plan to stay with your core areas of energy, transportation and hotels?

Over the last two years we have sold off a variety of assets to refocus on our traditional strengths in energy, transportation and hotels. We have been in these businesses, for the most part, more than 100 years and we have strong core franchises. In the next couple of years our focus will be on profitable growth in each of these areas. In due course we will be examining the desirability of further narrowing our focus so we can develop businesses that are truly competitive on an international scale. The objective would be to build greater economies of scale in areas that have the best prospects for longer-term profitable growth.

David P. O'Brien
Chairman, President
and Chief Executive Officer

Canadian Pacific has been described as an "asset play." Is that still the case?

Canadian Pacific has always been rich in assets and has sometimes been viewed solely as an asset play. In recent times we have emphasized the importance of turning these assets to account and generating increasing earnings and cash flow. In that sense I think we have moved from being an asset play to becoming more of an earnings and cash flow play. For example, through the sale of $4 billion of assets in the last two years, we have surfaced considerable asset value. Nevertheless, we still have an enormous wealth of assets, particularly real estate, which is not reflected in our share price. This includes strategic lands in downtown areas, significant real estate that becomes surplus to railway needs in the normal course of business, and a strong fee land position at PanCanadian. As has been the case in the last few years, we expect to continue to surface asset values in the years ahead.

You are often quoted as saying that CPR is playing catch-up to CN. Could you explain what you mean by that?

When CN was privatized in late 1995 it was better capitalized than CPR, both from an asset point of view and financially. In the years prior to its privatization, CN had invested heavily in its track structure and equipment. CPR, meanwhile, had spent a minimum of capital given the low returns that resulted from an unfavorable regulatory environment and a government-owned competitor. This environment changed with the privatization of CN, regulatory improvements and progress on labour issues. Investment in the railway system became more attractive and, in late 1995, CPR launched a major four year catch-up program to revitalize its franchise. From a financial perspective, CN was also in a stronger position as it had been recapitalized through the sale of its real estate to the government immediately prior to its public offering. We still have substantial real estate values to surface in the railway to help finance its aggressive capital investment program. This program will peak in 1998 and its completion by the end of 1999 will give us an operating network fully competitive with other Class 1 railways.

Are management's interests sufficiently aligned with those of shareholders?

I believe that they are. In the last year we have established policies that require senior officers to own a significant number of Canadian Pacific shares and that make a substantial portion of their remuneration contingent on the performance of our shares. We also require each director to acquire and hold at least 5,000 shares and we have implemented programs to ensure that our employees are focused on profitability and shareholder value.

Core Businesses

Transportation

Canadian Pacific Railway

Canadian Pacific Railway provides rail and intermodal freight transportation services over a 15,900-mile network extending from Montreal to Vancouver and into the U.S. midwest and northeast. It serves ports on the east coasts of Canada and the U.S. and the Port of Vancouver, moving large volumes of import and export goods across the continent. More than 80% of its business is west of the Great Lakes and consists primarily of bulk commodities such as grain, coal, sulphur, potash, fertilizers and petrochemicals.

CP Ships

CP Ships, through its operating companies Canada Maritime and Cast, is the largest carrier of containers on the North Atlantic. It links major markets in Northern and Mediterranean Europe with North America through its gateway at the Port of Montreal. CP Ships broadened its scope significantly in 1997 by acquiring Lykes Lines and Contship Containerlines. Lykes connects U.S. east coast and gulf coast ports with Europe and Africa and Contship operates seven shipping lines serving ports around the world.

Energy

PanCanadian Petroleum

PanCanadian is one of Canada's largest producers and marketers of crude oil, natural gas and natural gas liquids. Its extensive exploration and production activities stretch from coast to coast in Canada and include a variety of international interests in the Gulf of Mexico, the United Kingdom, Australia, Africa and Venezuela. PanCanadian has been among Canada's most active and successful drillers for a number of years.

Fording

Fording is Canada's largest producer of export coal. It competes with producers in Australia, the United States and Canada for metallurgical coal sales to markets around the world. Its three mines in southeastern British Columbia produce primarily high-quality metallurgical coal for the international steel industry. Its operations in Alberta include two mines supplying thermal coal to electric utilities and an oil sand overburden removal operation. Fording is also the world's largest producer of the industrial minerals wollastonite and tripoli.

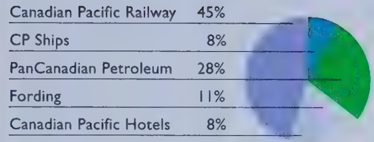
Hotels

Canadian Pacific Hotels

Canadian Pacific Hotels is Canada's largest owner-operator of full service hotels. It manages 26 business and resort properties with more than 11,000 rooms in nine provinces. They include some of the best-known heritage hotels in the world, such as Le Château Frontenac in Quebec City, Banff Springs Hotel in the Canadian Rockies and The Empress in Victoria, B.C. Canadian Pacific Hotels maintains a tradition of excellence by offering unparalleled locations, distinctive properties and a high standard of service for its guests.

	1997	1996	1995
Revenues (millions)	$ 3,716.8	$ 3,559.4	$ 3,560.2
Operating income (loss) (millions)	$ 802.1	$ 603.0	$ (695.2)
Net income (loss) (millions)	$ 416.7	$ 445.4	$ (555.7)
Cash flow (millions)	$ 732.5	$ 675.8	$ 526.8
Revenue ton miles (billions)	105.8	103.4	107.0
Trackage (miles)	15,900	17,400	18,100
Locomotives	1,619	1,615	1,665
Freight cars	53,000	54,000	49,400
Active employees	20,150	21,700	23,400*

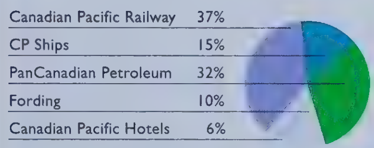
*impact of strikes removed



Operating Income

Revenues (millions)	$ 1,475.8	$ 1,113.8	$ 947.9
Operating income (millions)	$ 145.6	$ 110.9	$ 76.9
Net income (millions)	$ 134.7	$ 103.5	$ 71.1
Cash flow (millions)	$ 184.8	$ 134.8	$ 98.5
Container carryings*	671	480	399
Employees	1,500	1,300	1,400

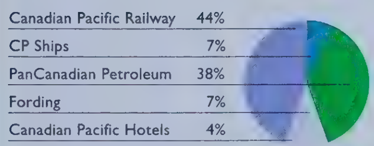
*thousand twenty-foot equivalent container units



Revenues

Revenues (millions)	$ 3,238.6	$ 2,744.2	$ 1,857.6
Operating income (millions)	$ 484.7	$ 474.8	$ 344.4
Net income (millions)	$ 273.7	$ 285.6	$ 184.5
Cash flow (millions)	$ 961.4	$ 1,000.8	$ 804.9
Wells drilled*	1,820	1,221	1,153
Total reserves – conventional oil and natural gas liquids**	637	422	378
Total reserves – natural gas**	361	341	330
Employees	2,000	1,700	1,700

*working interest
**million barrels of oil equivalent – proved plus probable, before royalty (natural gas converted at a rate of 10,000 cubic feet to one barrel of oil)



Assets

Revenues (millions)	$ 1,017.8	$ 915.1	$ 821.9
Operating income (millions)	$ 197.0	$ 162.5	$ 138.5
Net income (millions)	$ 117.7	$ 93.6	$ 78.4
Cash flow (millions)	$ 227.0	$ 160.0	$ 141.6
Cleaned coal sales (thousand tonnes)	13,500	12,100	11,400
Proven and probable reserves (million tonnes)*	3,770	3,895	3,900
Employees	1,900	1,800	1,800

*includes metallurgical and thermal coal, wollastonite, tripoli and potash

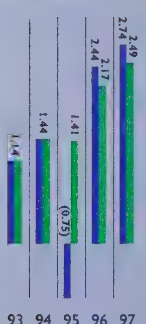
Revenues (millions)	$ 565.1	$ 565.6	$ 518.5
Operating income (millions)	$ 136.3	$ 115.8	$ 96.9
Net income (millions)	$ 163.3	$ 70.0	$ 66.8
Cash flow (millions)	$ 123.5	$ 84.4	$ 53.8
Hotels	26	26	24
Rooms	11,200	11,100	10,500
Employees (full-time equivalent)	7,900	7,400	7,100

Management's Discussion and Analysis

This Management's Discussion and Analysis for Canadian Pacific Limited (the "Corporation") and all of its subsidiaries is supplemental to the consolidated financial statements and related notes contained in the 1997 Annual Report To Shareholders. The financial statements for the year ended December 31, 1997 were prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. Differences from GAAP in the United States are disclosed in note 23 on pages 64 and 65 of the Annual Report.

Overview

During 1997, Canadian Pacific continued to focus on creating value for its shareholders. The Corporation concentrated on improving its efficiency, enhancing its competitive position, increasing operating earnings and growing cash flow in its businesses. The Corporation also surfaced significant value from its strong asset base and disposed of non-strategic assets. Asset sales further narrowed the business focus and, together with a strong operating cash flow, financed increased investment in the operations and substantially improved the Corporation's financial position.



Net Income Per Share From Continuing Operations ($)

Including Special Items
Excluding Special Items

Growing earnings and cash flow

Record operating results at Canadian Pacific Railway, CP Ships, Fording and Canadian Pacific Hotels, combined with modestly higher results at PanCanadian, increased consolidated operating income, excluding Special Items, to $1,632 million in 1997, a 13% improvement over 1996. Consolidated net income from continuing operations, excluding Special Items, was $860 million, or $2.49 per Common Share, in 1997 compared to $747 million, or $2.17 per Common Share, in 1996. Cash flow increased to $2,189 million in 1997 from $1,991 million in 1996.

Strengthening the focus

Canadian Pacific sharpened its focus on its core businesses and at the same time raised significant cash proceeds. The Corporation sold its equity investment in Laidlaw for $991 million and recorded an after-tax gain of $272 million. Canadian Pacific Railway's asset rationalization program continued and in 1997 included the disposal of over 1,400 miles of non-core rail lines for total proceeds of $426 million and an after-tax gain of $62 million.

The railway company also surfaced significant value by monetizing a real estate lease it owns in Montreal. This generated net proceeds of $38 million and resulted in an after-tax gain of $38 million. Similarly, Canadian Pacific Hotels surfaced value with the disposition of its two-thirds interest in 11 business hotels by selling the properties to Legacy Hotels Real Estate Investment Trust ("Legacy") and retaining a one-third interest in Legacy. Canadian Pacific Hotels will continue to manage the properties. Gross proceeds on the sale were $887 million, while net proceeds of $642 million reflected Canadian Pacific Hotels' one-third equity interest. The after-tax gain was $100 million.

Investing for growth

Cash flow together with $2,305 million from proceeds on the sale of the equity position in Laidlaw, business hotels and non-core railway and energy assets, funded an investment program of $2,465 million and selective acquisitions of $698 million.

Internal growth was supported by an aggressive capital spending program. Canadian Pacific Railway, which has undertaken a major program to renew its system, invested $858 million in new plant and equipment. New, more efficient locomotives are a key element in the program and 90 new AC locomotives were purchased for $223 million. PanCanadian's spending program was $1,245 million and the company replaced 156% of its 1997 production, excluding reserves added through acquisition. Spending on expansion projects at Fording included $105 million to complete construction of its new wollastonite mine in northwestern Mexico, strengthening Fording's position as the world's largest producer of wollastonite.

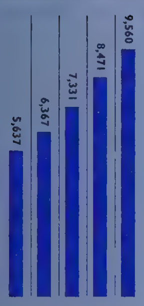
Several acquisitions were also completed to enhance core businesses and boost growth. CS Resources, a leading heavy oil producer in Western Canada, was acquired in July 1997 at a cost of $466 million plus assumed debt of $57 million in order to improve PanCanadian's capabilities and position it as a significant participant in Canada's heavy oil industry. In addition, two shipping companies and other minor acquisitions were undertaken at a cost of $232 million. The two shipping acquisitions, Lykes Lines and Contship Containerlines, are expected to offer a new platform for growth and significant synergy potential for CP Ships.

Strong financial position

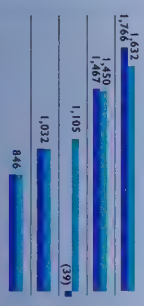
The strong operating cash flow and proceeds from the divestitures allowed the Corporation to significantly improve its financial position. The net debt level declined $810 million to $1,779 million at December 31, 1997. The net debt to equity ratio improved nine percentage points to 18:82 at year-end 1997 and the net debt to cash flow ratio was 0.8. The Corporation has substantial available debt capacity.

Record earnings

In 1997, the Corporation's net income surpassed the $1 billion mark for the first time in its history. Substantially improved operating results, combined with gains realized on the sale of non-strategic assets, raised net income to $1,256 million, or $3.64 per Common Share, up 44% over $869 million, or $2.52 per Common Share, in 1996. Consolidated operating revenues increased $1,089 million, or 13%, to $9,560 million in 1997 and consolidated operating income was up $299 million, or 20%, to $1,766 million, with all operations reporting better results.



Consolidated Operating Revenues
($ millions)



Consolidated Operating Income
($ millions)

■ Including Special Items
■ Excluding Special Items

Income Excluding Special Items

(in millions – except per share amounts)	1997	1996*
Operating income		
Canadian Pacific Railway	$ 668	$ 586
CP Ships	146	111
Pan Canadian Petroleum	485	475
Fording	197	162
Canadian Pacific Hotels	136	116
	$ 1,632	$ 1,450
Net income		
Canadian Pacific Railway	$ 317	$ 325
CP Ships	135	104
Pan Canadian Petroleum	274	286
Fording	118	94
Canadian Pacific Hotels	63	50
Other activities	(47)	(112)
Net income from continuing operations	$ 860	$ 747
Per Common Share	$ 2.49	$ 2.17

*Amounts relating to 1996 have been restated to conform with the change in accounting policy relating to Canadian Pacific Railway as described in Note 2 of the Consolidated Financial Statements included on page 45 of the 1997 Annual Report.

The Corporation's restructuring program continued at an accelerated pace in the past two years. Special Items arising therefrom and included in income are detailed in the table below.

Special Items

(in millions)	Operating Income	Non-operating Income	Net Income
Effect on 1997			
Gain on disposition of Laidlaw Inc.*	$ –	$ –	$ 272
Gain on disposition of business hotels	–	211	100
Gain on disposition of KCCL	54	–	33
Gain on St. Lawrence & Hudson rationalization	42	–	29
Gain on Molson Centre lease monetization	38	–	38
Corporate provision – including $35 for general tax	–	(140)	(113)
Total	$ 134	$ 71	$ 359
Effect on 1996			
Gain on repayment of Consolidated Debenture Stock	$ –	$ 120	$ 120
Gain on sale of Doubletree shares	–	31	20
Gain on sale of equity investment	17	–	17
Railway restructuring accrual discount amortization	–	(30)	(17)
Corporate provision – including $25 for general tax	–	(34)	(47)
Total	$ 17	$ 87	$ 93

*Gain on disposition of Laidlaw Inc. is included in discontinued operations.

In 1997, operating income included a gain of $134 million realized by Canadian Pacific Railway on the sale of non-core assets. The railway sold the Kansas City and Corn Lines ("KCCL") in the second quarter for an after-tax gain of $33 million and in the fourth quarter realized an after-tax gain of $38 million on the monetization of a real estate lease and an after-tax gain of $29 million on the sale of a branch line owned by its eastern subsidiary, the St. Lawrence & Hudson Railway ("StL&H").

Canadian Pacific Hotels' results included an after-tax gain of $100 million realized on the formation of Legacy. The Corporation's after-tax gain of $272 million realized on the sale of its equity investment in Laidlaw is reported under discontinued businesses. These gains were partially offset by a general corporate provision of $113 million after tax, which arises from a review of exposure to foreign exchange contracts, costs related to information technology and a general tax provision of $35 million.

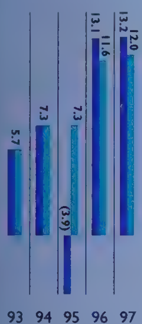
In 1996, Canadian Pacific Railway's operating income included an after-tax gain of $17 million on the sale of an equity investment. Its net income was also increased by $103 million as a non-cash gain of $120 million arising on the repayment of Consolidated Debenture Stock was partially offset by an after-tax charge of $17 million related to restructuring accruals. Canadian Pacific Hotels realized an after-tax gain of $20 million on sale of shares in Doubletree. There was also a general corporate provision in 1996 of $47 million after tax, which included a general tax provision of $25 million.

The average number of shares outstanding in 1997 was 345.4 million compared to 344.4 million in the prior year. The Corporation repurchased 7.0 million Common Shares in the 12 months under its share buyback program. The small increase in the average number of shares outstanding was largely due to the corporate reorganization and conversion of Preference Shares and 4% Consolidated Debenture Stock in the third quarter of 1996.

Solid financial returns

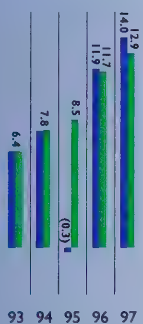
The return on average shareholders' equity from continuing operations was 13.1% in 1996 and 13.2% in 1997. The return from continuing operations, excluding Special Items, increased from 11.6% in 1996 to 12.0% in 1997. The return on average capital employed increased from 11.9% in 1996 to 14.0% in 1997, or 11.7% and 12.9%, respectively, when adjusted for Special Items.

The December 31st closing price for the Corporation's Common Shares on the Toronto Stock Exchange rose from $16.13 per share at the end of 1992 to $38.50 per share at year-end 1997, an average annual increase of 19%. Annual dividends have increased to $0.48 per share from $0.32 per share during the same five-year period.



Return on Average Shareholders' Equity From Continuing Operations (%)

Including Special Items
Excluding Special Items



Return on Average Capital Employed (%)

Including Special Items
Excluding Special Items

Share Price ($)

High
Close
Low

Segmented Operating Results

The Corporation operates in three industry segments: Transportation, Energy and Hotels.

1997 Performance Compared With 1996

Transportation

Canadian Pacific Railway

Canadian Pacific Railway's operating income, excluding Special Items, increased $82 million, or 14%, from 1996. Despite difficult weather-related operating conditions in the first part of the year, results benefited from growth in revenues from ongoing operations and cost reduction initiatives.

In order to present Canadian Pacific Railway's results on a basis consistent with those of other North American railways, a new capitalization policy has been retroactively adopted and certain reclassifications have been made. The accounting principle change is the capitalization of certain track replacement costs. The reclassifications are the netting of expenses against revenues related to ancillary services such as interline switching and cartage. The prior period figures have been restated to conform to the current year's presentation of these revenues and expenses. The effects of the change on the Consolidated Financial Statements is disclosed in Note 2 on page 45 of the 1997 Annual Report.

(in millions – excluding Special Items)	1997	1996
Revenues	$ 3,583	$ 3,543
Expenses	2,915	2,957
Operating income	$ 668	$ 586
Operating ratio	81.4%	83.4%

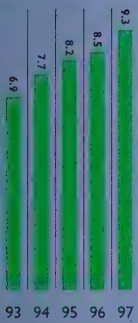
Revenues

Revenues excluding the gains on asset sales increased to $3,583 million in 1997 from $3,543 million in 1996, with the contribution from ongoing operations up $205 million, or 6%, to $3,531 million in 1997. Revenues from the KCCL were $52 million in the period prior to their sale in early April and $217 million in 1996. Overall, revenue ton miles ("RTMs") were up 2% to 105.8 billion, but revenue per RTM declined 1% to 3.24 cents because of a change in the traffic mix.

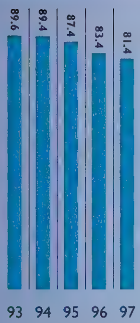
Canadian grain revenues were up $92 million, or 16%, as a record 1996/97 crop year and strong demand in world markets resulted in a 13% increase in shipments. In addition, grain rates improved, due in part to allowed rate increases of 7% on August 1, 1996 and 2% on August 1, 1997. Fertilizer revenues posted a $37 million, or 12%, increase because of new business and a record year for export potash volumes. Higher Canadian coal exports boosted revenues by $19 million, or 4%, and improved markets for sulphur brought revenues up $11 million, or 13%. Intermodal revenues were ahead $31 million, or 5%, reflecting not only a stronger economy but also a concentration on higher margin business.

Freight Revenues

(in millions)		1997		1996		Increase/ (Decrease)
Grain	$	**845**	$	746	$	99
Coal, sulphur and fertilizers		**978**		895		83
Forest products		**317**		320		(3)
Other resource products		**507**		492		15
Intermodal/container		**615**		584		31
Automotive		**252**		233		19
Food, consumer products, claims and adjustments		**(137)**		(108)		(29)
KCCL		**52**		217		(165)
Total	$	**3,429**	$	3,379	$	50



Gross-Ton-Miles per Active Employee (millions)



Operating Ratio excluding Special Items (%)

Operating Expenses

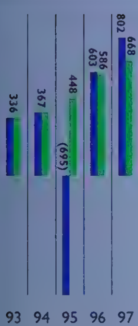
The railway continued its strong push to reduce costs. Operating expenses decreased $42 million, or 1%, from 1996, despite harsh winter conditions early in the year and higher traffic.

(in millions)		1997		1996		Increase/ (Decrease)
Compensation and benefits	$	**1,211**	$	1,299	$	(88)
Materials		**238**		256		(18)
Purchased services		**467**		410		57
Fuel		**343**		324		19
Rentals		**289**		296		(7)
Depreciation and amortization		**249**		226		23
Other		**118**		146		(28)
Total	$	**2,915**	$	2,957	$	(42)

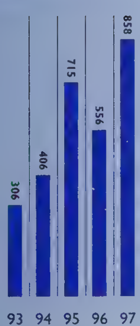
Cost-cutting initiatives included the adoption of more flexible work rules to increase labour productivity, more aggressive procurement practices to reduce the cost of purchased materials and services, fleet modernization and improved asset utilization to reduce fuel and equipment maintenance expenses, and continued rationalization of facilities to lower maintenance costs. Although the benefit of these initiatives has not yet been fully realized, the improvement in 1997 was significant. Gross-ton-miles per employee improved 9% over 1996.

Operating Income

Excluding Special Items, the combination of higher revenues and lower costs produced a 14% increase in operating income to $668 million and the operating ratio improved two percentage points to 81.4% in 1997.



Operating Income ($ millions)



Capital Expenditures ($ millions)

Including Special Items
Excluding Special Items

Strategy and Outlook

Canadian Pacific Railway is pursuing cost reductions through re-engineering its activities, adopting new technology and rationalizing its trackage. These efforts will also improve customer service and support initiatives to grow the business. A significant amount of capital has been allocated to renewing the network and improving service levels. Canadian Pacific Railway has funded and will continue to fund these investments from operating cash flow and proceeds from non-core asset sales.

During 1997, substantial proceeds from the sale of several non-core assets were realized and made available for reinvestment in the business. These divestitures are part of a larger continuing program to sell non-core rail assets in order to increase average traffic density, reduce capital costs and generate funds for reinvestment in the main system. To date, approximately 3,500 miles of non-core rail lines have been divested. The program envisages the sale of approximately 5,400 miles, or 30%, of the rail network by the end of 1999 and includes 1,000 miles of prairie branch lines.

Locomotives – 1997

Age in years	Number	%
0 – 5	173	11%
6 – 10	81	5%
11 – 15	200	12%
16 – 20	212	13%
Over 20	953	59%
	1,619	100%

In 1997, Canadian Pacific Railway announced that it would acquire by the end of 1999, 262 new AC locomotives featuring advanced traction technology. Under the order, 90 locomotives arrived in late 1997, 91 will arrive in 1998 and the remaining 81 in 1999. Compared to 1996, the average age of the locomotive fleet was lowered in 1997 by one year to 23 years. In addition, significant expenditures are being made on track upgrades, intermodal yards and information systems. Overall, this capital expenditure program will help reduce operating, maintenance and rental costs, improve customer service levels and increase asset utilization, reliability and capacity.

Canadian Pacific Railway has entered into discussions with Canadian National Railways to reduce costs and allow the Canadian railway industry to operate in a more efficient manner. In June 1997, the two railways announced the consolidation of the repair, assembly, and overhaul services for their system-wide train control and communications equipment. Further agreements are expected.

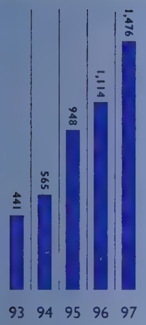
During the year, financial performance improved at StL&H, Canadian Pacific Railway's eastern-based subsidiary. Canadian Pacific Railway has reconsidered its options and will likely retain StL&H's Montreal-Toronto-Chicago line as an integral part of its network.

The outlook for the North American economy remains reasonably strong and bodes well for freight traffic. The positive impact of a weaker Canadian dollar on the railway's export volumes should mitigate the effects of current Asian financial difficulties. The railway will also derive significant benefits from its aggressive program of network revitalization and fleet renewal.

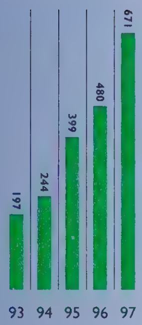
CP Ships

CP Ships comprises four container shipping companies: Canada Maritime, Cast, Lykes and Contship, which operate a number of niche trades. Record operating results were produced in 1997. Principal factors contributing to the increase were higher container carryings at Canada Maritime and Cast and ongoing benefits from cost reductions and operating synergies.

(in millions)	1997	1996
Revenues	$ 1,476	$ 1,114
Expenses	1,330	1,003
Operating income	$ 146	$ 111



Revenues
($ millions)



Container Carryings
(thousand teu)

Revenues

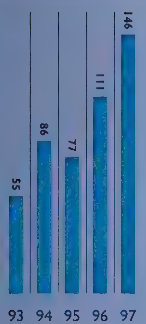
Operating revenues increased $362 million, or 32%, to $1,476 million, largely as a result of the two acquisitions made during the latter part of the year. Total container carryings increased 40% to 671,000 twenty-foot equivalent container units ("teu").

Excluding acquisitions, operating revenues increased 3% and carryings were up 4%. While pressure on rates persisted, there was only a modest rate decline.

Operating Expenses

Operating expenses in Canada Maritime and Cast decreased by 1% from the prior year despite increased volume and a one-time charge of $9 million relating to the redeployment of ships in 1998. The 1996 restructuring of routes and redeployment of ships resulted in significantly improved capacity utilization. Significant cost reductions were achieved in most areas, particularly in inland and container logistics.

Exchange rates were beneficial in 1997. A stronger U.S. dollar, in which most revenues are generated, had the effect of reducing Canadian and European costs. In the U.K., costs increased as Sterling strengthened.



Operating Income
($ millions)

Operating Income

Operating income at CP Ships increased $35 million, or 32%, to $146 million in 1997, and would have been higher but for the effect of the new acquisitions and the redeployment charge.

Canada Maritime operating income increased strongly after a modest increase in volume. Lower freight rates were more than compensated for by cost reductions. Furthermore, the minority interest in the Mediterranean Service was acquired in January 1997.

A second full year of satisfactory profits has completed Cast's rehabilitation following years of heavy losses before its acquisition in March 1995. The proceedings instituted by the Canadian Competition Bureau in December 1996 seeking an order from the Competition Tribunal that CP Ships divest itself of Cast have been stayed at the Bureau's request. Unless the Tribunal lifts the stay by March 31, 1998, the case will be dismissed.

Included in 1997 operating income is a loss at Lykes. A number of major initiatives are under way to improve service, reduce costs and strengthen the organization. After these are completed, which could take much of 1998, the line is expected to move into profit.

Contship earned a small profit in the period from October 1997. Contship has been undergoing a major trade reorganization and fleet renewal program over a two-year period ending in 1998. Sixteen new chartered ships will have replaced less efficient, smaller ships. The outlook in Contship trades is generally positive and, with reduced costs, it is expected to make a satisfactory profit contribution.

Earnings declined at Montreal Terminals due to higher depreciation on additional capital investment. Two new quayside cranes and five rubber-tired gantry cranes were delivered. Extra land was added and rail transfer improved, all part of a long-term plan to increase efficiency.

Strategy and Outlook

CP Ships has continually increased its scale of operations and market presence by building services through Montreal that are more cost and service effective than those of its competitors. The acquisition of Lykes strengthens CP Ships' overall strategic position in the North America-Europe trade and provides scope for further operational synergy. The acquisition of Contship also brings synergy potential, but mostly provides the opportunity to enter new markets. Contship has a strong market presence and a competitive position both as to service and cost, often in partnership with other major carriers, in its main trades. CP Ships' strategy has been to avoid the trades where the costs of entry are high and excess capacity has reduced profitability over a number of years.

Despite trade growth, some freight rate erosion from increased competition is expected in most trades, including the North Atlantic. The continuing drive to improve service and to reduce costs both within and between the four lines, as well as the addition of Contship earnings, will help to offset this trend.

Energy

PanCanadian Petroleum

Despite operating setbacks and a softening of crude oil prices, PanCanadian continued to report growth in revenues and operating income in 1997. Cash flow was significant at $961 million, but was down 4% from $1,001 million in 1996 primarily as a result of higher cash taxes in 1997.

(in millions)	1997	1996
Revenues	$ 3,239	$ 2,744
Expenses	2,754	2,269
Operating income	$ 485	$ 475

Revenues

Operating revenues increased $495 million to $3,239 million in 1997. Most of the increase is a result of higher marketing and natural gas revenues, partially offset by lower revenues from crude oil.

Weighted Average Prices Received

(excluding hedging)	1997	1996	1995	1994	1993
Crude oil (per barrel)	$ 21.17	$ 24.47	$ 20.17	$ 17.35	$ 16.48
Natural gas liquids (per barrel)	$ 20.58	$ 18.08	$ 14.06	$ 12.76	$ 14.21
Natural gas (per thousand cubic feet)	$ 1.99	$ 1.60	$ 1.25	$ 1.84	$ 1.65

Revenues

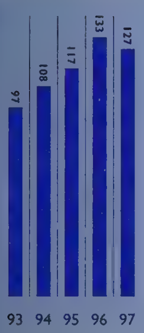
(in millions)	1997	Volume**	Price	1996
Crude oil	$ 938	(49)	(83)	$ 1,070
Natural gas	548	3	176	369
Natural gas liquids	99	(3)	10	92
	1,585	(49)	103	1,531
Empress	112			105
Other*	55			123
Royalties	(142)			(160)
	1,610			1,599
Marketing	1,629			1,145
Total operating revenues	$ 3,239			$ 2,744

*1996 other includes $74 million of revenues from Syncrude
**volume figures represent revenue variances resulting from production

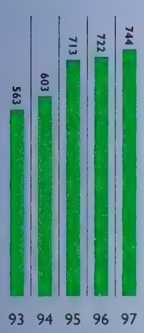
Crude Oil

Daily production of crude oil averaged 126,810 barrels, down 4% from 1996. Although 1997 production was substantial, expectations were not met owing to a decline in heavy oil production, the disposition of non-core properties and production interruptions at PanCanadian's East Coast operations, which had resumed to normal levels by year-end. In addition, PanCanadian's 25% interest in a joint venture in Russia was sold effective July 1, 1997. Production from the newly-acquired CS Resources partially offset these declines.

Strong oil prices in the first quarter of 1997 were followed by a continued weakening during the remainder of the year. The price of West Texas Intermediate ("WTI") crude oil averaged $20.61 U.S. in 1997, down 6% from 1996. Before hedging, PanCanadian received an average price of $21.17 Cdn. per barrel compared with $24.47 Cdn. in 1996, a decrease of 13%. These prices reflect a wider differential between light and heavy crude oil in 1997 and a larger proportion of heavy oil in PanCanadian's production mix. Including the effects of hedging, the price received per barrel of crude oil was $20.26 Cdn., a decrease of 8% from 1996.



Crude Oil Production
(thousand barrels per day)



Natural Gas Production
(mmcf per day)

Gas and NGLs

Natural gas production averaged 744 million cubic feet ("mmcf") per day in 1997, up 3% from the prior year. Natural gas production growth planned for 1997 was delayed by the realignment of operations into business units. However, some of the momentum was recovered by the fourth quarter when rates averaged 808 mmcf per day, up 16% from the fourth quarter of 1996.

Production of field natural gas liquids ("NGLs") declined 3% to 13,213 barrels per day in 1997 as a result of the disposition of PanCanadian's interest in the Jumping Pound, Alberta property. PanCanadian swapped its interest in Jumping Pound to increase its interest in the Weyburn, Saskatchewan property to 69% from 44%. There is a major project under way at Weyburn which is expected to extend the field's producing life by 25 years and enhance recovery by an additional 120 million barrels of crude oil.

Significant strengthening of the natural gas market in North America resulted in PanCanadian's average price of natural gas, before hedging, increasing 24% to $1.99 per thousand cubic feet ("mcf") in 1997. Including the effects of hedging, PanCanadian's realized natural gas price increased 47% to $2.07 per mcf in 1997.

PanCanadian's ownership in four NGL extraction plants that straddle two major gas transmission pipelines at Empress, Alberta, provides combined processing capacity of approximately 1.5 billion cubic feet per day. Strong product prices, particularly for propane, helped boost operating revenues from these facilities to $112 million in 1997 from $105 million in 1996.

Marketing

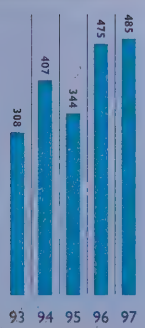
In 1997, PanCanadian marketed increased volumes of third-party crude oil, natural gas and natural gas liquids production through several partnerships and joint venture agreements. Marketing revenues were up $485 million, or 42%, over 1996.

Operating Expenses

Operating costs associated with the production of crude oil and natural gas were $5.60 per barrel of oil equivalent ("BOE"), up from $4.69 per BOE in 1996. The 19% increase is primarily a result of significantly higher costs associated with heavy oil wells and difficult first-half weather conditions. Costs of producing natural gas were maintained at 1996 levels.

The cost of purchased product associated with marketing activities increased $504 million over 1996 and was directly related to the increase in marketing revenues. Margins on marketing activities decreased to 1.7% in 1997 from 4.1% in 1996, reflecting downward pressure on prices.

The depletion, depreciation and amortization ("DD&A") rate was $7.17 per BOE compared with $6.68 per BOE in 1996, an increase of 7%. The increase reflects the higher costs associated with finding and developing new reserves in Western Canada.



Operating Income
($ millions)

Operating Income

PanCanadian's contribution to consolidated operating income increased $10 million to $485 million in 1997. The impact of higher natural gas prices and production was partially offset by lower crude oil prices and production, as well as higher operating costs and DD&A rate.

Strategy and Outlook

With the reorganization into business units completed, PanCanadian plans to continue profitable growth through cost-efficient development of its significant Western Canadian land base. PanCanadian has strong potential for natural gas growth in Western Canada and the CS acquisition should help production growth in the heavy oil area.

PanCanadian's international program will supplement growth in Canadian volumes. This program includes projects in the U.K. sector of the North Sea, the Netherlands, Australia and Libya. During 1997, acreage in South Africa and Venezuela was acquired and progress at a prospect in the Gulf of Mexico, in which PanCanadian holds a 20% interest, was encouraging.

For 1998 PanCanadian expects WTI oil and gas prices to weaken from 1997 levels, although Canadian gas prices are expected to show some strengthening later in 1998 as a result of TransCanada and Northern Border pipeline expansions. Similarly, price differentials between light and heavy oil are expected to widen, but should narrow in the longer term as upgrading capacity is added.

Fording

Fording delivered record results in 1997. Operating income increased $35 million, or 22%, to $197 million, reflecting increased export coal volumes and cost containment.

(in millions)	1997	1996
Revenues	$ 1,018	$ 915
Expenses	821	753
Operating income	$ 197	$ 162

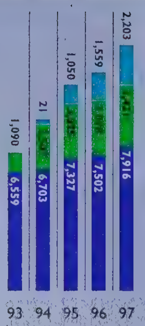
Revenues

(in millions)	1997	Volume*	Price	1996
Fording River	$ 530	27	9	$ 494
Greenhills	235	26	7	202
Coal Mountain	114	34	(3)	83
Total British Columbia mines	879	87	13	779
Alberta mines	85			86
NYCO	54			50
	$ 1,018			$ 915

*volume figures represent revenue variances resulting from production

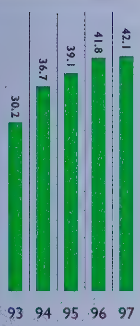
Revenues from the British Columbia mines increased $100 million to $879 million in 1997. Production totaled 14.8 million tonnes of cleaned coal, up 12% from 1996. Sales volumes increased at each of the British Columbia mines as a result of market development efforts in Europe and Asia. Capital investment programs to upgrade processing plants and equipment were substantially completed during 1997 and, together with higher sales, allowed the British Columbia mines to operate at a higher capacity. In addition, Coal Mountain completed its first full year in which the mine operated 24 hours a day.

A better product mix and reduced rail and port handling charges combined to improve the net realized price by 3%, despite weaker market prices for lower-quality grades of coal.

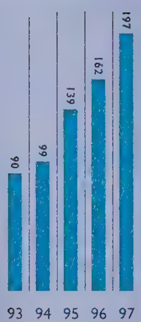


Sales Volume British Columbia Mines
(thousand tonnes)

- Coal Mountain
- Greenhills
- Fording River



Productivity – Tonnes of Cleaned Coal
(per employee per 8-hour shift)



Operating Income
($ millions)

Coal Sales Volumes by Area*

(percentage)	**1997**	1996	1995	1994	1993
Japan	**22**	29	24	27	29
Korea	**27**	18	22	24	36
Europe	**37**	37	30	18	8
North America	**3**	3	7	12	8
South America	**4**	6	7	5	5
Other	**7**	7	10	14	14
Total	**100**	100	100	100	100

*British Columbia mining operations

Operating Expenses

At the British Columbia mines, cost savings programs initiated in 1996 and significant capital expenditures in 1997 to upgrade plant efficiency and the trucking fleet helped to improve productivity 1% over 1996. Since 1993, productivity at the mines has increased 39% to 42.1 tonnes per employee per 8-hour man shift. This increase in productivity resulted in the cost of cleaned coal produced at the British Columbia mines falling 3% from 1996. Despite a significant increase in the haul distance and a higher strip ratio at Fording River, the cost of cleaned coal produced increased only 2%. A lower operating strip ratio and higher production resulted in the cost of cleaned coal produced falling 5% at Greenhills. Costs of production at Coal Mountain fell 14% as a result of efficiencies associated with 24-hour-per-day operations and higher volumes.

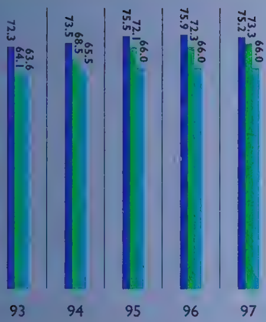
Operating Income

Of Fording's $197 million in operating income, $142 million came from its British Columbia mines, which improved their operating income contribution by 29% compared to 1996. Operating income from Fording's Alberta operations and wollastonite operations ("NYCO") in New York state were up only slightly. An 18% increase in sales volumes at NYCO was partially offset by intense price competition.

Strategy and Outlook

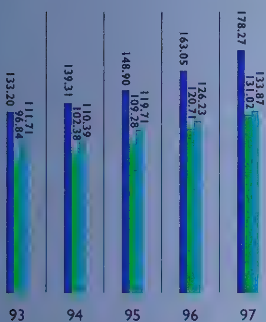
Fording intends to remain Canada's lowest-cost producer of metallurgical coal. Production from its British Columbia mining operations is again expected to reach record levels in 1998. Price negotiations with Japanese steel mills for higher quality coking coal were completed in December 1997 for the contract year starting April 1, 1998. They resulted in a 5% price reduction, which is in line with rate reductions received by other Canadian and Australian producers.

Minera NYCO recently began production at the world's largest wollastonite processing facility. The facility, located in northwestern Mexico, has a production capacity of 240,000 tonnes of wollastonite per year. For 1998, production is expected to reach 100,000 tonnes.



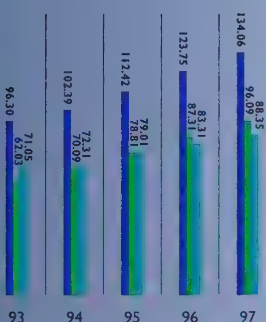
Occupancy Rates (%)

- Resort
- Legacy
- Other Managed



Average Room Rates ($)

- Resort
- Legacy
- Other Managed



Revenue Per Available Room ($)

- Resort
- Legacy
- Other Managed

Hotels

Canadian Pacific Hotels

Demand for hotel rooms remained strong throughout 1997 due to an improving domestic economy and robust international travel, resulting in record operating income at Canadian Pacific Hotels.

(in millions)	1997 As reported	1997 Excluding Legacy sale	1996
Revenues	$ 565	$ 605	$ 566
Expenses	429	466	450
Operating income	$ 136	$ 139	$ 116
Operating margin	24.1%	23.0%	20.5%

Revenues

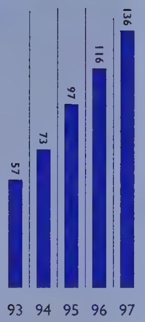
Excluding the effect of the sale of 11 business hotels to Legacy in November, total operating revenues increased $39 million, or 7%, to $605 million in 1997. Occupancy levels for the resort, Legacy and other managed hotels combined held steady at 72.2%. However, as a result of the strength of the hotel industry and the benefits derived from an earlier major restoration and renovation program, average room rates increased 8% to $144.95 in 1997.

The average room rates increased at all the hotels. Room revenue at the Legacy hotels increased $17 million, reflecting a 9% increase in the average room rate to $131.02 and a one percentage point increase in occupancy to 73.3%. The resulting increase in revenue per available room was 10% to $96.09. The resort hotels also benefited from an increase in average room rates, up 9% to $178.27. Occupancy in the resort hotels remained high at 75.2% and revenue per available room increased 8% to $134.06.

In addition to the management and advisory fees generated for services provided to the Legacy hotels, other management activities and equity income from hotel partnerships generated revenues of $6 million in 1997 compared with $2 million in the prior year. The 1996 additions of the Lombard Hotel in Winnipeg and the Château Mont Tremblant north of Montreal were significant components of this increase. The addition of 221 new rooms at the Chateau Whistler in British Columbia also contributed to this increase. Like Canadian Pacific Hotels' owned hotels, other managed hotels also benefited from strong industry fundamentals.

Expenses

After adjusting for the sale of the business hotels, operating expenses increased $16 million, or 4%, to $466 million in 1997. On this basis, the operating margin improved to 23.0% in 1997 from 20.5% in 1996.



Operating Income
($ millions)

Operating Income

Operating income increased $20 million to $136 million in 1997 as a result of higher room rates. Excluding the effects of the sale of the business hotels, operating income would have increased $23 million compared to 1996.

Strategy and Outlook

Canadian Pacific Hotels continues to focus on providing superior customer service and on growing its portfolio of owned and managed hotels; both directly, through expansion of existing properties and acquisitions or new construction, and indirectly, through expanding Legacy's portfolio. In December 1997, construction of a new 400-room hotel at the Vancouver International Airport was begun. The total cost of this project is estimated to be $65 million, with a completion date scheduled for December 1999. Canadian Pacific Hotels plans, subject to environmental approvals, to expand Chateau Lake Louise by adding 80 new rooms and a conference facility at an estimated cost of $40 million.

At December 31, 1996, 17 hotels were owned and nine were managed. At December 31, 1997, six hotels were owned and 20 were managed. The sale of a two-thirds interest in Legacy surfaced value at a time when Canadian real estate markets were strong, and provides Canadian Pacific Hotels with direct access to capital markets to fund further growth. The establishment of Legacy is an important first step in Canadian Pacific Hotels' objective of growing the management side of this business.

Economic events in Asia have resulted in a decrease of foreign travellers from this market, which primarily affects the resort hotels. Management is confident that expansion of other markets will largely negate the impact of these events on future operations.

Other Items

Net Interest Expense

Net interest expense of $195 million was $40 million, or 17%, lower than in 1996. Lower debt levels, resulting from the sale of Marathon Realty in 1996 and the utilization of some of the proceeds from the sale of Laidlaw and the business hotels, account for most of the decrease. Lower interest rates also contributed.

Non-operating Items

Non-operating expenses decreased $18 million compared to 1996, after excluding special gains of $71 million in 1997 and $87 million in 1996. The 1997 gains are net of a $140 million provision consisting of $54 million relating to information technology costs and $86 million in foreign currency hedging losses. The decrease from 1996 is a result of a reduction in other foreign exchange losses in 1997 coupled with reduced corporate expenses. Special gains in 1997 and 1996 are detailed on page 14.

Income Taxes

Income tax expense increased $237 million to $557 million in 1997 and the effective tax rate increased 9.5 percentage points to 36.0%.

Effective Income Tax Rate

(in millions)	As Reported 1997	As Reported 1996	Excluding Special Items 1997	Excluding Special Items 1996
Net income before income taxes and minority interest	**$ 1,547**	$ 1,206	**$ 1,324**	$ 1,102
Total income tax expense	**$ 557**	$ 320	**$ 438**	$ 308
Effective income tax rate	**36.0%**	26.5%	**33.1%**	27.9%

Income tax expenses – year ended 1996	$ 320
Increase as a result of an increase in the effective tax rate	115
Increase as a result of higher income	123
Increase in the general corporate tax provision	10
Other	(11)
Income tax expense – year ended 1997	$ 557

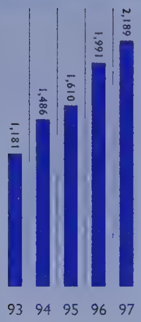
The increase in the effective tax rate accounts for $115 million of the increase and arises from a reduction in the utilization of previously non-tax effected losses; approximately $200 million in 1996 and $100 million in 1997 (tax accounting benefits of $88 million in 1996 and $44 million in 1997), partially offset by lower corporate tax rates on foreign income. Higher income for tax purposes resulted in an additional $123 million of income tax expense in 1997. During 1997 the Corporation recorded an additional $35 million as a general tax provision. The charge against income as a general tax provision was $25 million in 1996.

Minority Interest

Minority interest represents the interest of shareholders other than the Corporation in the earnings of PanCanadian. During 1997, the Corporation purchased 597,200 additional PanCanadian shares on the open market in order to maintain its ownership interest at approximately 87%.

Discontinued Operations

In July 1997, the Corporation sold its 47% class A and 11% class B shareholdings in Laidlaw. The resulting gain and equity earnings of $37 million prior to the sale are included in discontinued operations. Equity earnings from Laidlaw in 1996 amounted to $34 million. In addition, 1996 discontinued operations included $5 million of losses incurred by Marathon Realty, which was sold effective September 30, 1996.



Cash Flow
($ millions)

Cash Flow

Cash flow before changes in non-cash working capital and other items increased $198 million, or 10%, to $2,189 million, mainly as a result of higher operating earnings before Special Items.

Dividends

During 1997 and 1996, dividends of $166 million and $165 million were paid, respectively, reflecting quarterly dividends of $0.12 per Common Share. Consolidated dividends paid of $179 million in 1997 compare to $180 million in 1996.

1996 Performance Compared With 1995

Consolidated revenues amounted to $8,471 million in 1996, up $1,140 million over 1995 due mainly to growth at PanCanadian. Operating earnings of $1,467 million in 1996 contrasted with a loss of $39 million in 1995. Excluding Special Items in both years, operating income increased from $1,105 million in 1995 to $1,450 million, representing a 31% improvement. All the operating companies reported improved operating income. The Corporation reported net income of $869 million in 1996, which reversed a loss of $787 million in 1995. Net income from continuing operations, before Special Items, was $747 million in 1996 and $483 million in 1995.

Segmented Operating Results

Transportation

Transportation revenues increased $148 million to $4,537 million in 1996 primarily as a result of increased activity at CP Ships. Operating income of $714 million contrasted with a loss of $618 million in 1995 when Canadian Pacific Railway booked a $1,143 million restructuring charge. Excluding this charge, operating earnings increased 33% from $525 million in 1995. Both Canadian Pacific Railway and CP Ships contributed to this increase.

In 1996, Canadian Pacific Railway's operating revenues decreased $1 million. However, cost-cutting initiatives, the absence of labour strikes in 1996, and the acquisition of more efficient locomotives resulted in a reduction in operating expenses of $156 million, excluding the 1995 restructuring charge. The operating ratio improved from 87.4% in 1995 to 83.4% in 1996, excluding Special Items. Freight revenues were down $30 million in 1996, as a 3% decrease in total shipments was only partially offset by a 2% increase in rates. Other revenues were up $29 million, attributable to greater real estate sales and a $17 million gain on the 1996 sale of an equity investment.

In 1996, CP Ships' revenues increased $166 million, or 18%, and operating income rose $34 million, or 44%. Container carryings were up 20% over 1995; however, shipping rates declined 2%. Positive factors included expanded operations, the full-year effect of earnings from the Cast container operations, acquired on March 31, 1995, and the non-recurrence of service disruptions due to rail and port strikes in 1995.

Energy

Energy revenues and operating income increased $980 million and $154 million, respectively, in 1996. PanCanadian experienced a strong year and Fording also posted double digit growth in both revenues and operating income.

In 1996, PanCanadian's revenues increased $886 million, or 48%, reflecting mainly greater third-party marketing activities. Operating income improved $131 million, or 38%, principally due to higher commodity prices and greater volumes of crude oil, partially offset by commodity hedging losses. Conventional crude oil revenues were up $211 million, reflecting a 13% increase in production and a 21% increase in the weighted average price to $24.47 per barrel, before hedging. Natural gas revenues increased $41 million primarily as a result of a 28% increase in the weighted average price to $1.60 per mcf, prior to hedging. Revenues from natural gas liquids increased $18 million, with prices up from $14.06 per barrel in 1995 to $18.08 per barrel in 1996. Revenues from Empress plant liquids increased $25 million reflecting a favorable price movement from $15.10 per barrel in 1995 to $20.85 per barrel in 1996. Revenues from third party marketing activities increased from $446 million in 1995 to $1,145 million in 1996, reflecting new marketing partnerships in the U.S.; the cost of these products purchased for resale was up from $426 million in 1995 to $1,098 million in 1996.

Hedging activities reduced the realized crude oil price by $2.45 per barrel to $22.02 and lowered the realized natural gas price by $0.19 to $1.41 per mcf. The net cost associated with hedging activities in 1996 was approximately $169 million, of which $119 million related to crude oil commodity hedging. These hedging costs were net of foreign currency hedging activities which produced a gain of $32 million. Operating costs rose 21% to $4.69 per BOE, due primarily to high front-end costs associated with greater heavy oil production and new production on the east coast of Canada. The combined rate of DD&A was $6.70 per BOE for Canadian operations, up from $6.64 in 1995, reflecting the increase in the cost of finding and developing crude oil and natural gas reserves and a $70 million write-down on international operations.

Fording's operating income increased $24 million in 1996 and revenues were up $93 million. Income from the mines in British Columbia totaled $110 million in 1996, an increase of 33% over 1995, reflecting a 12% rise in the benchmark coal price effective April 1, 1995 and a further increase of 4% effective April 1, 1996. In addition, there was an increase in coal sales volume of 6% to 12.1 million tonnes. At the Alberta operations, operating income declined $3 million to $37 million in 1996, reflecting lower royalty revenues and reduced contribution from Mildred Lake operations. NYCO's operating income was unchanged at $16 million in 1996 because a 6% increase in wollastonite sales volume was offset by lower prices due to competition.

Hotels

Operating income and revenues from Canadian Pacific Hotels increased $19 million and $47 million, respectively, in 1996. This was due mainly to a strong increase in revenue per available room, up 8% to $96.98, reflecting better market conditions and the positive effects on tourism of the low value of the Canadian dollar. Room occupancy at the owned and managed hotels was 72.2%, compared with 72.0% in 1995.

Other Items

Net Interest Expense

Net interest expense of $235 million was up $11 million from 1995 due mainly to an increase in debt to finance railway operations.

Non-operating Items

Other expenses totalled $26 million in 1996 and $130 million in 1995. In 1996 other expenses were net of a $120 million gain on repayment of Perpetual 4% Consolidated Debenture Stock, a $31 million gain on the sale of the remaining one million shares in Doubletree and a $9 million gain on PanCanadian's sale of its 10% interest in Syncrude. Significant other expenses in 1996 included amortization of exchange losses amounting to $55 million and a pre-tax charge of $30 million relating to the railway's restructuring accruals. In 1995, other expenses included a $90 million corporate restructuring charge, partially offset by a $61 million gain on the sale of approximately four million Doubletree shares.

Income Taxes

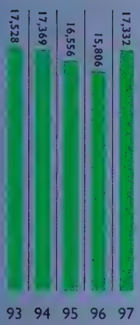
Income tax expense of $320 million in 1996 contrasted with an income tax recovery of $166 million in 1995 when significant charges resulted in a pre-tax loss. Income taxes in 1996 were reduced by approximately $90 million through the utilization of tax losses carried forward from previous years at Canadian Pacific Railway and PanCanadian. This benefit was partially offset by a general tax provision of $25 million.

Discontinued Operations

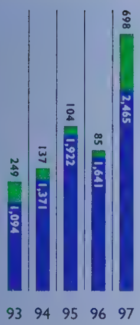
Included in consolidated results was income of $29 million from discontinued operations in 1996 and losses from discontinued operations amounting to $530 million in 1995. Discontinued operations in 1996 included $34 million of equity income from the Corporation's investment in Laidlaw and $5 million of losses relating to activities at Marathon Realty, which was disposed of in the third quarter of 1996. The 1995 loss consisted primarily of a loss of $355 million relating to Marathon Realty, a loss of $193 million in respect of Unitel, and a write-down of $10 million in respect of certain trucking assets held by the Corporation, offset by equity income from Laidlaw of $28 million.

Liquidity and Capital Resources

Working capital at December 31, 1997 was $66 million compared with a deficit of $406 million at December 31, 1996. The major reason for the improvement was receivables relating to installment receipts totalling $632 million arising from the sale of Laidlaw and the 11 business hotels. The Corporation had a net cash position of $444 million at December 31, 1997.

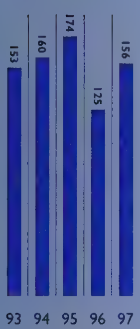


Consolidated Assets
($ millions)

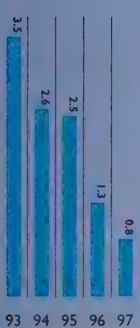


Investment Spending
($ millions)

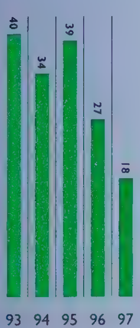
Acquisitions
Capital Investment



Proved Reserves Replacement as a Percentage of Production
(before acquisitions and dispositions – BOE)



Net Debt to Cash Flow



Net Debt as a % of Net Debt and Equity

Consolidated assets increased from $15,806 million at December 31, 1996 to $17,332 million at December 31, 1997, reflecting the acquisitions of Lykes and Contship by CP Ships and of CS Resources by PanCanadian. In addition, Canadian Pacific Railway's purchase of 90 new AC locomotives and right-of-way improvements contributed significantly to the increase in consolidated assets.

Investing Activities

During 1997, additions to properties totalled $2,465 million: including $1,245 million by PanCanadian, $858 million by Canadian Pacific Railway, $223 million by Fording, $89 million by CP Ships and $50 million by Canadian Pacific Hotels. During 1997, expenditures on strategic acquisitions totalled $698 million, consisting of $466 million for CS Resources and $232 million for Lykes, Contship and other minor acquisitions.

PanCanadian added 122 million BOE of proved crude oil and natural gas reserves at a finding and development cost of $8.75 per BOE and replaced 156% of its production. The majority of Canadian Pacific Railway's capital expenditures was for 90 new AC locomotives and right-of-way improvements. Fording's capital expenditures included $105 million for completion of the new wollastonite mine in northwestern Mexico and $90 million on plant equipment and truck fleet upgrading. CP Ships' capital expenditures of $89 million included $44 million on ships and $20 million on terminal equipment. Canadian Pacific Hotels spent $30 million on maintenance capital.

Proceeds from asset sales totalled $2,305 million in 1997, comprised mainly of the sale of the Corporation's investment in Laidlaw for $991 million, sale of the business hotels to Legacy for $642 million, sales of the KCCL and part of StL&H lines by Canadian Pacific Railway for $426 million and non-core PanCanadian assets for $209 million.

Under the Corporation's share buyback program, seven million Common Shares were purchased on the open market at a total cost of $272 million.

Financing Activities

Proceeds from the sale of Laidlaw and the business hotels generated significant cash which, together with operating cash flow, enabled the Corporation to fund all of the above investment and to substantially reduce its net debt. During 1997, debt repayments net of refinancings totalled $805 million. At December 31, 1997, the Corporation's net debt ratio had improved nine percentage points to 18:82 from 27:73 at December 31, 1996. The net debt to cash flow ratio improved from 1.3 times cash flow at December 31, 1996 to 0.8 times cash flow at December 31, 1997. The Corporation has $1,065 million of uncommitted short-term and long-term lines of credit available at December 31, 1997. At December 31, 1997, $170 million of long-term debt will mature within the year, down significantly from $787 million at December 31, 1996.

During 1997, 730,000 Common Shares were issued under the Corporation's stock option, dividend reinvestment and share purchase plans for proceeds of $17 million. PanCanadian raised another $9 million from the issuance of common shares under its stock option plan.

Future Trends, Commitments and Risks

The Corporation will continue to focus on growing operating earnings by expanding its operations and aggressively managing its costs. The Corporation is looking forward to another strong year in 1998, but is facing uncertainty surrounding commodity prices and the Asian crisis.

Inflation in many larger industrialized economies has been at record lows for several years. The actual rate of inflation, after adjusting for technology and quality improvements, may be close to zero in many countries. While inflation has not had a material effect on operations, replacement cost and related depreciation expense would be substantially higher, on a replacement cost basis, than the historical cost reported in the financial statements.

The Corporation expects to spend over $2 billion on capital programs in 1998. Major projects include the continued revitalization of the railroad, continued exploration and development of PanCanadian's Western Canadian land base, and development of a new hotel at the Vancouver International Airport.

At December 31, 1997, Canadian Pacific had commitments for capital expenditures amounting to $727 million. Of this amount, $530 million represents the commitment by Canadian Pacific Railway relating to the delivery of 91 new AC locomotives in 1998 for $285 million and an additional $245 million for 81 locomotives in 1999. Also at December 31, 1997, minimum payments under operating leases and gas transportation agreements were estimated at $3,373 million, of which $716 million is payable during 1998 and the remaining $2,657 million becomes payable between 1999 and 2002.

The following table illustrates the estimated effect of changes, under current conditions, in the foreign exchange value of the Canadian dollar and prices of crude oil, natural gas and coal, on consolidated 1998 earnings.

Sensitivity of Consolidated 1998 Net Income

(in millions)	Effect on Net Income before Hedging	Effect on Net Income after Hedging
U.S. 1 cent decrease in the value of the Canadian dollar	$ 20	$ 11
U.S. $1.00 per barrel increase in the price of WTI crude oil		
– PanCanadian	$ 36	$ 28
– Other businesses	$ (6)	$ (6)
10 cent per mcf increase in natural gas prices	$ 15	$ 15
U.S. $1.00 per tonne increase in coal prices	$ 11	$ 11

In order to manage the risks associated with changes in foreign currency exchange rates, interest rates and commodity prices, Canadian Pacific utilizes various derivative financial instruments.

Canadian Pacific is exposed to changes in the Cdn./U.S. dollar exchange rate as a result of generating commodity revenues in U.S. dollars, payments associated with long-term debt denominated in U.S. dollars and certain other U.S. dollar operating expenditures. This exposure to exchange rate fluctuations is managed by selling and purchasing forward U.S. dollars at fixed rates in future periods. At December 31, 1997, Canadian Pacific had entered into foreign exchange contracts to sell approximately U.S. $5,172 million at rates ranging from $1.29 to $1.48 over the years 1998 – 2003 and to purchase U.S. $30 million at $1.44 during 1998. The unrealized loss on these contracts as at December 31, 1997 was $189 million. Gains and losses relating to these contracts designated as hedges are only recognized in income in the period that the hedged exposure is recognized in income. In addition to the foreign exchange contracts designated as hedges discussed above, Canadian Pacific has entered into foreign exchange contracts, not designated as hedges, to sell U.S. $900 million at rates ranging from $1.29 to $1.34 over the years 1998-2002. Gains and losses related to these non-hedged contracts are recognized in income in the current period. As such, $ 86 million was charged to income for 1997 resulting mainly from the decline in the Cdn./U.S. dollar exchange rate during the fourth quarter. Additional charges or income relating to these non-hedged contracts will occur in subsequent periods as a result of fluctuations in the exchange rate.

Canadian Pacific is exposed to changes in interest rates as a result of interest payments associated with long-term debt. The exposure to interest rate fluctuations is hedged by entering into interest rate and cross currency interest rate swaps which revise the effective interest rates payable. At December 31, 1997, Canadian Pacific had entered into approximately $1,156 million of interest rate swaps relating to long-term debt as described in Note 14 on pages 56 to 59 of the Annual Report to Shareholders. The result of these swaps has been to convert $663 million of long-term debt from fixed to floating interest rates. The total unrealized gain with respect to interest rate swaps at December 31, 1997 was $70 million.

Canadian Pacific is exposed to changes in commodity prices as a result of fluctuating prices received for oil and gas production. The exposure to changing oil prices is hedged using New York Mercantile Exchange's ("NYMEX") WTI futures contracts and fluctuating differentials for crude oil quality are hedged using over-the-counter ("OTC") financial instruments. As at December 31, 1997, Canadian Pacific has sold forward, primarily using NYMEX WTI futures contracts, approximately 11.2 million barrels of crude oil for delivery in 1998 for an average price of U.S. $19.46 per barrel and OTC financial instruments are in place which fix the heavy oil differential at U.S. $4.71 per barrel on 3.3 million barrels for 1998. Exposure to changing natural gas prices is hedged using NYMEX natural gas futures contracts and OTC financial instruments. As at December 31, 1997 the unrealized gain related to commodity instruments was $40 million.

Canadian Pacific is exposed to credit losses in the event of non-performance by counterparties to financial instruments; however, Canadian Pacific does not anticipate such non-performance because of dealing with counterparties of high credit quality. In addition, Canadian Pacific deals with an appropriate number of counterparties when entering financial instrument contracts, thereby reducing the risks that would result from concentration.

The long-term debt balance at December 31, 1997 comprises foreign currency long-term debt (denominated principally in U.S. dollars) of $1,786 million (1996 – $2,347 million) and Canadian dollar debt of $1,070 million (1996 – $1,095 million). Annual maturities and sinking fund requirements for each of the five years following 1997 are: 1998 – $170 million; 1999 – $87 million; 2000 – $201 million; 2001 – $419 million; and 2002 – $163 million.

The total expenditure required to deal with information technology issues associated with Year 2000 will be significant. The Corporation has established a Task Force comprising members of the Corporation and independent third party consultants. Action plans for each operating company have been reviewed by the Task Force and an inventory of issues has been compiled, including the potential impact on suppliers, customers and other third parties. During 1997, the Corporation provided $54 million for issues relating to information technology. Management is confident that these technology issues will be resolved on a timely basis.

Labour Relations

During 1997, national agreements were reached with three of seven bargaining units, representing 50% of Canadian Pacific Railway's unionized employees in Canada. Regarding railway operations in the United States, neither the Delaware and Hudson Railway nor the Soo Line Railroad has participated in industry-wide negotiations. Rather, these railways have negotiated with local units of various unions to achieve settlements more tailored to their needs. Employees at the Delaware and Hudson Railway are subject to a five-year agreement expiring at the end of 1998. Soo Line Railroad has reached agreements with 10 units representing almost two-thirds of its unionized employees. Various other labour agreements in the United States have been open and subject to negotiation since 1995. Of these, seven are currently in mediation, the outcome of which cannot be predicted at this time.

Fording's mining operations are subject to a variety of collective agreements. Employees at Fording River have a five-year agreement which expires in April 2001. Coal Mountain employees are party to a five-year agreement expiring at the end of December 1999, but which may be extended until the end of December 2001 subject to renegotiation of provisions relating to pay and benefits. Employees at Whitewood and NYCO in the United States are subject to agreements which expire in September 2000 and June 2001, respectively. Employees at Fording's Greenhills, Genesee, Mildred Lake and Minera NYCO operations are currently not unionized.

During 1997, three agreements with unionized employees at Canadian Pacific Hotels expired. New agreements are currently being negotiated.

At the Montreal Terminals, workers employed by the Maritime Employer's Association were subject to contracts which expired at the end of December 1997. Negotiations regarding new contracts are in progress.

Environmental Matters

The Corporation's operations are and will continue to be affected by federal, provincial, state and local laws and regulations regarding the protection of the environment. The Corporation's businesses have policies and procedures in place which support a comprehensive environmental management system that includes audits, legal compliance and reporting. It is not expected that the competitive positions of the Corporation's businesses will be adversely affected within their respective industries by changes to existing laws and regulations since all industry members are subject to the same legislative requirements.

Based on comprehensive environmental investigations at various sites across Canada and the U.S., Canadian Pacific Railway recorded a $144 million pre-tax charge to earnings in 1995 to cover anticipated expenditures on environmental programs to the year 2005. In 1997, the provision was extended to cover the program until 2007. Sites were classified according to their known environmental condition as well as their past use and level of railway activity. Estimated costs cover the removal of hydrocarbons in soil and on groundwater tables, and hydrocarbons dissolved in groundwater, but do not include the removal of heavy metals. During 1997, approximately $20 million was spent on environmental projects relating to railway operations.

PanCanadian is participating in the federal government's Voluntary Challenge Program to reduce greenhouse gas emissions. Emission reductions over the past year were achieved in conjunction with planned capital spending and production optimization projects, thereby minimizing the fiscal impact. PanCanadian expects that emission reductions can continue to be made under a voluntary program with manageable fiscal impact. No material capital expenditures relating to environmental control for existing or new facilities are expected in the foreseeable future. The phasing-in period for any new legislation is expected to provide sufficient time for PanCanadian to prepare for any increase in operating costs and capital investment requirements.

At Fording, extensive environmental monitoring and mitigation programs help to ensure that mining activity has a minimal effect on the surrounding natural environment. Through extensive reclamation efforts at each of its operations, mined land is being effectively returned to productive and sustainable uses equal to or better than its pre-mined condition. In April 1997, Fording received governmental approval allowing the Greenhills operations to proceed with long-term development plans, extending the life of the mine to 25 years.

There are not expected to be significant expenditures relating to environmental control on existing or new facilities in the foreseeable future among the Corporation's other businesses.

Litigation

As to be expected during the normal course of business activity, the Corporation and its subsidiaries are occasionally involved in litigation incidental to their respective businesses. Management believes that amounts with respect to such litigation are not material.

Management's Responsibility for Financial Reporting

The information in this Annual Report is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and careful judgment.

Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal audit department reviews these accounting controls on an ongoing basis and reports its findings and recommendations to management and the Audit Committee of the Board of Directors.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting of four members, all of whom are outside directors. This Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board for approval. It also reviews the recommendations of both the independent and internal auditors for improvements to internal controls as well as the actions of management to implement such recommendations.

Executive Vice-President and
Chief Financial Officer

Chairman, President and
Chief Executive Officer

February 6, 1998

Statement of Consolidated Income

For the Year ended December 31

(in millions, except amounts per share)	1997	1996	1995
Revenues	$ 9,560.0	$ 8,471.3	$ 7,331.3
Cost and Expenses			
Cost of goods sold and services	5,829.9	5,021.8	4,330.6
Selling, general and administrative	1,001.7	1,003.1	2,142.1
Depreciation, depletion and amortization	962.7	979.4	897.1
	7,794.3	7,004.3	7,369.8
Operating income (loss) (Note 3)	1,765.7	1,467.0	(38.5)
Interest expense, net (Note 4)	194.8	235.3	224.2
Non-operating expense (income) (Note 5)	24.4	25.9	129.7
Income (loss) before income taxes and minority interest	1,546.5	1,205.8	(392.4)
Income tax expense (recovery) (Note 6)	557.0	319.7	(166.0)
Minority interest share of income of subsidiary	42.8	46.1	30.0
Income (loss) from continuing operations (Note 3)	946.7	840.0	(256.4)
Discontinued operations (Note 7)	309.1	29.1	(530.5)
Net income (loss)	$ 1,255.8	$ 869.1	$ (786.9)
Average number of Common Shares outstanding	345.4	344.4	342.1
Earnings (loss) per Common Share			
Income (loss) from continuing operations	$ 2.74	$ 2.44	$ (0.75)
Net income (loss)	$ 3.64	$ 2.52	$ (2.30)

Statement of Consolidated Retained Income

For the Year ended December 31

(in millions, except amounts per share)	1997	1996	1995
Balance, January 1			
As previously reported	$ 3,215.4	$ 2,552.1	$ 3,499.3
Adjustment for change in accounting policies (Note 2)	323.2	283.2	246.6
As restated	3,538.6	2,835.3	3,745.9
Net income (loss)	1,255.8	869.1	(786.9)
	4,794.4	3,704.4	2,959.0
Dividends			
4% Preference Shares	–	0.3	0.5
Common Shares (per share: 1997-$0.48; 1996-$0.48;1995-$0.36)	165.3	165.5	123.2
Total dividends	165.3	165.8	123.7
Balance, December 31	$ 4,629.1	$ 3,538.6	$ 2,835.3

See Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31

(in millions)	1997	1996	1995
Operating Activities			
Income (loss) from continuing operations	$ 946.7	$ 840.0	$ (256.4)
Depreciation, depletion and amortization	962.7	1,009.4	897.1
Deferred income tax expense (recovery)	425.3	225.7	(220.0)
Minority interest share of income of subsidiary	42.8	46.1	30.0
Write-down of assets and restructuring costs	–	–	1,233.0
Amortization of exchange losses (gains)	20.4	54.8	(10.9)
Gains from sales of businesses, investments and properties	(348.9)	(64.6)	(62.9)
Other	140.4	(120.4)	–
Cash flow	2,189.4	1,991.0	1,609.9
Reduction in restructuring accruals, net	(173.3)	(231.5)	(83.9)
Other operating activities	37.5	(49.7)	7.2
Increase in non-cash working capital balances relating to continuing operations (Note 8)	(307.8)	(134.9)	(120.3)
Cash from continuing operations	1,745.8	1,574.9	1,412.9
Cash from (used by) discontinued operations	–	35.1	(0.3)
Total cash from operations	1,745.8	1,610.0	1,412.6
Dividends			
Paid to shareholders of the Corporation	(165.9)	(165.2)	(109.8)
Paid to minority shareholders of subsidiaries	(13.5)	(14.7)	(15.1)
	(179.4)	(179.9)	(124.9)
Financing Activities			
Issuance of long term debt	129.5	216.7	810.5
Repayment of long term debt	(934.7)	(832.6)	(626.5)
Issuance of shares by subsidiaries	9.3	5.4	5.0
Buy-back of Common Shares by the Corporation (Note 18)	(272.0)	(2.2)	–
Issuance of Common Shares by the Corporation (Note 18)	16.6	48.9	11.1
Redemption of Preference Shares by the Corporation	–	(14.9)	–
Other financing activities	–	20.6	17.2
Discontinued operations (Note 7)	–	(104.5)	(104.7)
	(1,051.3)	(662.6)	112.6
Investing Activities			
Business acquisitions and investments (Note 9)	(698.2)	(84.7)	(104.1)
Additions to properties (Note 3)	(2,465.0)	(1,641.1)	(1,921.9)
Sales of businesses, investments and properties	2,304.6	806.9	282.3
Other investing activities	(64.7)	(76.0)	(46.9)
Discontinued operations (Note 7)	–	65.4	165.0
	(923.3)	(929.5)	(1,625.6)
Cash Position*			
Decrease in cash	(408.2)	(162.0)	(225.3)
Cash at beginning of year	852.6	1,014.6	1,239.9
Cash at end of year	$ 444.4	$ 852.6	$ 1,014.6

*Cash comprises cash and temporary investments net of bank loans.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31

Assets

(in millions)	1997	1996
Current Assets		
Cash and temporary investments	$ 599.2	$ 981.2
Instalment receipts	632.0	–
Accounts receivable	1,583.3	1,310.2
Inventories (Note 10)	402.2	379.1
	3,216.7	2,670.5
Investments (Note 11)	306.1	881.1
Properties, at cost (Note 12)		
Transportation	10,316.6	9,650.4
Energy	10,367.5	8,538.5
Hotels	594.0	1,262.9
Other	223.0	282.3
	21,501.1	19,734.1
Less: Accumulated depreciation, depletion and amortization	8,702.6	8,072.2
	12,798.5	11,661.9
Other Assets and Deferred Charges (Note 13)	1,010.6	592.4
	$ 17,331.9	$ 15,805.9

Auditors' Report

To the Shareholders
of Canadian Pacific Limited

We have audited the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1997 and 1996 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Canadian Pacific Limited as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1997 in accordance with generally accepted accounting principles in Canada.

Price Waterhouse

Chartered Accountants
Calgary, Alberta
February 6, 1998

Consolidated Balance Sheet

December 31

Liabilities and Shareholders' Equity

(in millions)	1997	1996
Current Liabilities		
Bank loans	$ 154.8	$ 128.6
Accounts payable and accrued liabilities	2,623.8	1,943.3
Income and other taxes payable	157.5	172.1
Dividends payable	45.3	45.9
Long term debt maturing within one year (Note 14)	169.6	786.7
	3,151.0	3,076.6
Deferred Liabilities (Note 15)	979.6	886.8
Long Term Debt (Note 14)	2,686.0	2,655.1
Deferred Income Taxes	2,103.3	1,644.1
Deferred Income Credits (Note 16)	488.0	493.9
Minority Shareholders' Interest in Subsidiary Companies (Note 17)	350.6	321.6
Shareholders' Equity (Note 18)		
Common Shares	1,794.4	1,814.4
Paid-in surplus	Con. sur 1,072.9	1,307.2
Foreign currency translation adjustments	Cumtive 77.0	67.6
Retained income	4,629.1	3,538.6
	7,573.4	6,727.8
Commitments and Contingencies (Note 21)		
	$ 17,331.9	$ 15,805.9

See Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

D.P. O'Brien, Director

S.A. Milner, Director

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of Canadian Pacific Limited (the "Corporation") and all of its subsidiaries ("Canadian Pacific"). All significant inter-company transactions and balances have been eliminated.

The principal companies included in each business segment are as follows:

December 31	**1997**	1996	1995
		Percentage Ownership	
Transportation			
Canadian Pacific Railway Company	**100.0%**	100.0%	100.0%[1]
CP Ships	**100.0**	100.0	100.0
Energy			
PanCanadian Petroleum Limited	**86.7**	86.6	86.7
Fording Inc.	**100.0**	100.0	100.0
Hotels			
Canadian Pacific Hotels & Resorts Inc.	**100.0**	100.0	100.0

[1] Canadian Pacific Railway Company was a division of the Corporation until July 4, 1996 (Note 18).

A significant part of Canadian Pacific's exploration, development, production and marketing of oil and gas is carried out as joint ventures and partnerships. These investments are accounted for through proportional consolidation.

The major differences between Canadian and United States generally accepted accounting principles, in so far as they apply to Canadian Pacific, are described under Supplementary Data.

Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

1. Significant Accounting Policies (cont'd)

Revenue Recognition

Transportation: Railway freight revenues are recognized on the percentage of completion basis (Note 2).

Revenues from shipping operations, costs directly attributable to loaded container movements and vessel costs are accounted for on the basis of voyages completed in the period.

Energy: Revenues from crude oil, natural gas and natural gas liquids are recognized at the time of product delivery.

Coal sales revenues are recognized when the coal has been loaded and has departed the shipping locations. Industrial minerals sales revenues are recognized upon shipment from the plant.

Hotels: Revenues from hotel operations are recognized when services are provided and ultimate collection is reasonably assured.

Earnings per Common Share

Earnings per Common Share are calculated using the weighted average number of Common Shares outstanding during the year.

Foreign Currency Translation

Foreign currency assets and liabilities of Canadian Pacific's operations, other than through self-sustained foreign subsidiaries, are translated into Canadian dollars at the year-end exchange rate for monetary items and at the historical exchange rates for non-monetary ones. Foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions except for provisions for depreciation and depletion which are translated on the same basis as the related assets. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of Canadian Pacific's self-sustained foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of Canadian Pacific Railway Company's ("CP Railway") Perpetual 4% Consolidated Debenture Stock.

Post Retirement Benefits

For defined benefit plans, pension costs are actuarially determined on the basis of management's best estimates using the projected benefit method prorated over the service lives of employees. Pension expense includes the cost of pension benefits earned during the current year and the amortization of adjustments arising from the pension plan amendments, experience gains and losses and changes in assumptions. The amortization period covers the expected average remaining service lives of employees covered by the various plans. The difference between the market related value of pension fund assets and the present value of accrued pension benefits, at the date the present accounting policy was adopted, is also being amortized over the expected average remaining service lives of plan employees.

For defined contribution plans, pension costs generally equal plan contributions made during the current year.

For post retirement health care and life insurance benefits, costs are based on the annual insurance premium paid to provide these benefits.

Inventories

Rail materials and supplies are valued at the lower of average cost and replacement cost.

Finished goods are valued at the lower of average cost and net realizable value.

Properties

Transportation: Fixed asset additions and major renewals are recorded at cost. Maintenance and repairs are charged to expense as incurred. Labour, material and overhead costs of programmed track replacements are capitalized (Note 2). When depreciable property is retired or otherwise disposed of in the normal course of business, the book value, less salvage, is charged to accumulated depreciation.

1. Significant Accounting Policies (cont'd)

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property, except for rail and other track material in the United States which is based on usage.

Equipment under capital lease is included in properties and depreciated over the period of expected use.

Estimated service lives used for principal categories of transportation properties are as follows:

Railway	Years
Diesel locomotives	27 to 50
Freight cars	22 to 42
Ties	28 to 57
Rails in first position	19 to 23
in other than first position	27 to 62
Computer system development costs	5 to 10
Ships	20

Energy: Canadian Pacific follows the full cost method of accounting for oil and gas properties, whereby all costs relating to the exploration for, and the development of, conventional crude oil and natural gas reserves are capitalized on a country-by-country cost center basis. Costs accumulated within each cost center are depleted and depreciated using the unit of production method, based on estimated proved reserves, with net production and reserves volumes of natural gas converted to equivalent energy units of crude oil. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

Costs of exploration in new cost centres, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

In determining the depletion and depreciation provisions for conventional crude oil and natural gas assets, Canadian Pacific includes any excess of the net book value of those oil and natural gas assets over the unescalated, undiscounted future net operating revenues from its proved oil and natural gas reserves for each cost centre (ceiling test). A second ceiling test calculation is conducted on an enterprise basis, by including in the depletion and depreciation provisions any excess of the net book value of conventional oil and natural gas assets for all cost centers over the unescalated, undiscounted future net operating revenues from proved oil and natural gas reserves, less future general and administrative expenses, financing costs and income taxes. The ceiling test calculations utilize Canadian Pacific's weighted average product prices prevailing at year end.

Depreciation of conventional crude oil and natural gas plant, production and other equipment is provided for using the unit of production method. Natural gas liquids extraction facilities are depreciated on a straight-line basis over the estimated service lives of the assets.

Estimated future dismantlement and site restoration costs of conventional crude oil and natural gas assets are provided for using the unit of production method. Such costs for extraction facilities of natural gas liquids are provided for over the estimated service lives of the assets. Expenditures incurred to dismantle facilities and restore well sites are charged against the related restoration liability.

Land, buildings and equipment are recorded at cost. Expenditures to acquire, explore for and develop identified mineral properties are capitalized, net of costs relating to production during the development phase, pending evaluation and completion. Expenditures on general exploration for producing properties and abandoned properties are charged against income.

Depletion on producing mineral properties is provided using a unit of production method based upon the proved mineral reserve position.

Estimated costs for the reclamation of mineral properties are provided for using the unit of production method.

Interest on funds borrowed to finance major energy projects is capitalized during the development and construction periods.

Hotels: Hotel properties are recorded at cost including interest capitalized during construction of new facilities and major renewals.

1. Significant Accounting Policies (cont'd)

The sinking fund method of providing depreciation is used for buildings. This method will amortize the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Goodwill

Goodwill represents the excess of purchase price over fair value of identifiable assets acquired, and is amortized to income over the estimated periods of benefit. Canadian Pacific evaluates the carrying value of goodwill for possible impairment on an annual basis. Goodwill is written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows of the respective subsidiary.

Financial Instruments

Derivative financial instruments are utilized by Canadian Pacific to manage its exposure to market risks relating to foreign currency exchange rates, interest rates and commodity prices. Unrealized gains and losses on derivative instruments used to convert the Canadian dollar principal of long term debt to United States dollars are amortized into income over the term of the related debt instrument. Unrealized gains and losses on derivative instruments, except those used as hedges, are recognized in income in the current period. Unrealized gains and losses on derivative instruments used as hedges are only recognized in income in the period that the hedged exposure is recognized in income, which is the same period as the instrument is settled. The gain or loss is netted against the income or expense item which was hedged. Gains or losses realized on the termination of derivative instruments prior to their maturity are deferred and recognized in the period that the item which was hedged by the terminated instrument is recognized in income.

Restructuring Charges

The present values of future payments towards restructuring charges are recorded in deferred liabilities, and in accrued liabilities when the timing of future payments is known. The discount is being amortized over the payment period.

2. Change in Accounting Policies

In order to present the railway results on a basis consistent with other North American railways, new capitalization and reporting policies have been adopted. The principal change is that labour and material expenditures associated with the programmed replacement of track and structures have been capitalized. The new reporting methods also include netting expenses against revenues related to certain low margin activities, such as switching, cartage and passenger services. The effect of these two changes has been applied retroactively and the financial statements of prior periods have been restated. The final change is that revenue has been recognized on a percentage of completion basis rather than a completion basis. The result of this latter change is not material and has been applied prospectively. The effect on the financial statements is summarized in the following table:

Income Statement	1997	1996	1995
Increase in operating income	$ 129.8	$ 72.3	$ 65.5
Increase in non-operating income	1.0	1.0	1.0
Increase in deferred taxes	57.1	33.3	29.9
Increase in net income	$ 73.7	$ 40.0	$ 36.6
Balance Sheet			
Increase (decrease) in other current assets	$ 1.0	$ –	$ (1.1)
Increase in net properties	719.8	590.0	517.8
Increase in assets	$ 720.8	$ 590.0	$ 516.7
Increase in deferred taxes	$ 323.9	$ 266.8	$ 233.5
Increase in retained income	396.9	323.2	283.2
Increase in liabilities and shareholders' equity	$ 720.8	$ 590.0	$ 516.7

3. Segmented Information

Business Segments

Canadian Pacific carries on its operating activities through three classes of business: Transportation, Energy and Hotels. The business segments are based upon the major activities of significant subsidiaries of Canadian Pacific.

The results of all subsidiaries are based upon their reported figures adjusted, where applicable, for acquisition-related costs.

Charges between entities within the same business segment, which are made at normal tariff or other arm's length rates, are eliminated in reporting revenues and expenses by business segment. Services provided by entities in the Transportation segment to other entities in this segment yielded revenues in 1997 of $142.8 million (1996 – $136.7 million; 1995 – $118.9 million).

(in millions)

		Revenues	Cost of Goods Sold and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
Transportation					
CP Railway	**1997**	**$ 3,716.8**	**$ 2,049.0**	**$ 616.5**	**$ 249.2**
	1996	3,559.4	2,044.6	685.6	226.2
	1995	3,560.3	2,162.2	1,852.4	240.9
CP Ships	**1997**	**$ 1,475.8**	**$ 1,085.3**	**$ 195.3**	**$ 49.6**
	1996	1,113.8	822.6	142.4	37.9
	1995	947.9	713.0	128.3	29.7
Total (after elimination of intra-segment charges)	**1997**	**$ 5,049.8**	**$ 2,991.5**	**$ 811.8**	**$ 298.8**
	1996	4,536.5	2,730.5	828.0	264.1
	1995	4,389.3	2,756.3	1,980.7	270.6
Energy					
PanCanadian Petroleum Limited	**1997**	**$ 3,238.6**	**$ 2,076.8**	**$ 111.0**	**$ 566.1**
	1996	2,744.2	1,554.3	90.4	624.7
	1995	1,857.6	884.7	87.4	541.1
Fording Inc.	**1997**	**$ 1,017.8**	**$ 748.5**	**$ 11.2**	**$ 61.1**
	1996	915.1	689.1	12.9	50.6
	1995	821.9	627.3	9.2	46.9
Total	**1997**	**$ 4,256.4**	**$ 2,825.3**	**$ 122.2**	**$ 627.2**
	1996	3,659.3	2,243.4	103.3	675.3
	1995	2,679.5	1,512.0	96.6	588.0

3. Segmented Information (cont'd)

Charges between entities in different business segments, which are made at normal tariff or other arm's length rates, are not eliminated in reporting revenues and expenses by business segment but are eliminated in reporting total consolidated revenues and expenses. Consolidated net income is not affected by this practice. Services provided by the Transportation segment to other business segments yielded revenues in 1997 of $311.3 million (1996 – $290.1 million; 1995 – $255.9 million).

Operating Income (Loss)	Interest Expense, Net	Non-Operating Expense (Income)	Income Tax Expense (Recovery)	Minority Interest	Net Income (Loss)	Identifiable Assets	Additions to Properties
$ 802.1	**$ 119.5**	**$ 37.3**	**$ 228.6**	**$ –**	**$ 416.7**	**$ 7,502.4**	**$ 858.0**
603.0	112.8	(43.7)	88.5	–	445.4	7,213.8	555.5
(695.2)	101.8	62.3	(303.6)	–	(555.7)	6,415.5	714.5
$ 145.6	**$ (3.4)**	**$ –**	**$ 14.3**	**$ –**	**$ 134.7**	**$ 1,329.4**	**$ 89.0**
110.9	(3.1)	–	10.5	–	103.5	645.2	99.1
76.9	(1.0)	–	6.8	–	71.1	543.4	32.5
$ 947.7	**$ 116.1**	**$ 37.3**	**$ 242.9**	**$ –**	**$ 551.4**	**$ 8,831.8**	**$ 947.0**
713.9	109.7	(43.7)	99.0	–	548.9	7,859.0	654.6
(618.3)	100.8	62.3	(296.8)	–	(484.6)	6,958.9	747.0
$ 484.7	**$ 45.9**	**$ 1.8**	**$ 120.5**	**$ 42.8**	**$ 273.7**	**$ 5,682.8**	**$ 1,244.5**
474.8	47.8	(26.0)	121.3	46.1	285.6	5,037.8	775.6
344.4	34.2	1.5	94.2	30.0	184.5	4,627.0	1,010.7
$ 197.0	**$ 9.6**	**$ (0.4)**	**$ 70.1**	**$ –**	**$ 117.7**	**$ 1,118.0**	**$ 223.4**
162.5	10.4	(0.4)	58.9	–	93.6	920.6	159.8
138.5	12.5	(0.3)	47.9	–	78.4	773.1	114.3
$ 681.7	**$ 55.5**	**$ 1.4**	**$ 190.6**	**$ 42.8**	**$ 391.4**	**$ 6,800.8**	**$ 1,467.9**
637.3	58.2	(26.4)	180.2	46.1	379.2	5,958.4	935.4
482.9	46.7	1.2	142.1	30.0	262.9	5,400.1	1,125.0

3. Segmented Information (cont'd)

(in millions)

		Revenues	Cost of Goods Sold and Services	Selling, General and Administrative	Depreciation, Depletion and Amortization
Hotels					
Canadian Pacific Hotels	**1997**	**$ 565.1**	**$ 324.4**	**$ 67.7**	**$ 36.7**
& Resorts Inc.	1996	565.6	338.0	71.8	40.0
	1995	518.5	318.3	64.8	38.5
Total of segments					
(after elimination of	**1997**	**$ 9,560.0**	**$ 5,829.9**	**$ 1,001.7**	**$ 962.7**
inter-segment charges)	1996	8,471.3	5,021.8	1,003.1	979.4
	1995	7,331.3	4,330.6	2,142.1	897.1
Other					
Other activities	**1997**				
	1996				
	1995				
Continuing operations	**1997**	**$ 9,560.0**	**$ 5,829.9**	**$ 1,001.7**	**$ 962.7**
(after inter-company	1996	8,471.3	5,021.8	1,003.1	979.4
eliminations)	1995	7,331.3	4,330.6	2,142.1	897.1
Discontinued operations (Note 7)	**1997**				
	1996				
	1995				
Consolidated total	**1997**				
	1996				
	1995				

Notes

Transportation:

- Included in revenues of CP Railway, in 1997, is $134.1 million ($99.3 million after tax) of gains from the sale of Kansas City and Corn Lines ("KCCL"), Molson Centre lease and a portion of the St. Lawrence & Hudson line.
- Included in revenues of CP Railway, in 1996, is a $16.7 million gain on the sale of an equity investment in a rail industry insurance association.
- Included in non-operating items of CP Railway, in 1996, is a gain of $120.4 million on the repayment of the Perpetual 4% Consolidated Debenture Stock, and a $30 million charge ($16.5 million after tax) to reflect a reduction in the discount rate on previous restructuring accruals.
- Included in selling, general and administrative expenses of CP Railway, in 1995, is a $1,143 million provision ($704 million after tax) for writedown of assets and restructuring costs.

Hotels:

- Included in non-operating items of Canadian Pacific Hotels & Resorts Inc., in 1997 is a $211 million gain ($99.8 million after tax) on disposition of business hotels, and in 1996, is a $31 million gain ($19.6 million after tax) on the sale of shares of Doubletree Corporation, and in 1995, is a $60.7 million gain ($34.5 million after tax) on the sale of approximately four million Doubletree Corporation shares.

	Operating Income (Loss)	Interest Expense, Net	Non-Operating Expense (Income)	Income Tax Expense (Recovery)	Minority Interest	Net Income (Loss)	Identifiable Assets	Additions to Properties
	$ 136.3	**$ 19.1**	**$ (202.6)**	**$ 156.5**	**$ –**	**$ 163.3**	**$ 719.7**	**$ 50.1**
	115.8	24.1	(31.1)	52.8	–	70.0	1,027.5	51.0
	96.9	38.0	(60.7)	52.8	–	66.8	1,012.8	49.8
	$ 1,765.7	**$ 190.7**	**$ (163.9)**	**$ 590.0**	**$ 42.8**	**$ 1,106.1**	**$ 16,352.3**	**$ 2,465.0**
	1,467.0	192.0	(101.2)	332.0	46.1	998.1	14,844.9	1,641.0
	(38.5)	185.5	2.8	(101.9)	30.0	(154.9)	13,371.8	1,921.8
		$ 4.1	**$ 188.3**	**$ (33.0)**	**$ –**	**$ (159.4)**	**$ 2,346.1**	**$ –**
		43.3	127.1	(12.3)	–	(158.1)	2,639.3	0.1
		38.7	126.9	(64.1)	–	(101.5)	3,380.1	0.1
	$ 1,765.7	**$ 194.8**	**$ 24.4**	**$ 557.0**	**$ 42.8**	**$ 946.7**	**$ 17,331.9**	**$ 2,465.0**
	1,467.0	235.3	25.9	319.7	46.1	840.0	15,109.2	1,641.1
	(38.5)	224.2	129.7	(166.0)	30.0	(256.4)	14,076.9	1,921.9
						$ 309.1	**$ –**	**$ –**
						29.1	696.7	–
						(530.5)	2,478.8	–
						$ 1,255.8	**$ 17,331.9**	**$ 2,465.0**
						869.1	15,805.9	1,641.1
						(786.9)	16,555.7	1,921.9

Other:

- Included in non-operating items of other activities in 1997 is a $140 million ($78 million after tax) provision for hedging losses and information technology costs, and in 1996 is $30 million additional amortization of exchange loss on the intended early repayment in 1997 of U.S. $500 million of debt, and in 1995, is a $90 million charge ($70 million after tax) relating to the Corporation's restructuring plan.
- Income tax expense in 1997 includes a $35 million general tax provision, and for 1996 includes a $25 million general tax provision and a $33 million charge relating to the sale of tax losses to a subsidiary in prior years.

3. Segmented Information (cont'd)

Geographic Segments

(in millions)	1997	1996	1995
Canada			
Revenues			
Domestic	$ 4,460.3	$ 4,473.1	$ 3,856.6
Export	1,833.5	1,615.2	1,372.1
Inter-company revenues	(454.1)	(426.8)	(374.8)
	$ 5,839.7	$ 5,661.5	$ 4,853.9
Operating income	$ 1,493.9	$ 1,164.9	$ 170.1
Identifiable assets	$ 14,508.7	$ 13,684.1	$ 14,587.7
United States			
Revenues	$ 2,935.0	$ 2,292.6	$ 1,571.2
Operating income (loss)	$ 213.7	$ 299.7	$ (264.8)
Identifiable assets	$ 2,858.0	$ 3,066.6	$ 3,565.7
Other Countries			
Revenues	$ 785.3	$ 517.2	$ 906.2
Operating income	$ 58.1	$ 2.4	$ 56.2
Identifiable assets	$ 1,331.7	$ 733.5	$ 397.4
Summary			
Revenues	$ 9,560.0	$ 8,471.3	$ 7,331.3
Operating income (loss)	$ 1,765.7	$ 1,467.0	$ (38.5)
Identifiable assets	$ 18,698.4	$ 17,484.2	$ 18,550.8
Investment in Laidlaw Inc.	–	696.7	679.9
Inter-company eliminations	(1,366.5)	(2,375.0)	(2,675.0)
	$ 17,331.9	$ 15,805.9	$ 16,555.7

4. Interest Expense, Net

(in millions)	1997	1996	1995
Long term debt and debenture stock	$ 265.2	$ 288.3	$ 358.2
Short term debt	5.5	5.9	4.1
	270.7	294.2	362.3
Less: Interest income	75.9	58.9	138.1
	$ 194.8	$ 235.3	$ 224.2

5. Non-operating Expense (Income)

(in millions)	1997	1996	1995
Gain on repayment of the Perpetual 4% Consolidated Debenture Stock	$ –	$ (120.4)	$ –
Gain on sale of Doubletree Corporation shares	–	(31.0)	(60.7)
Gain on sale of business hotels	(211.0)	–	–
Information technology costs	54.0	–	–
Gain on sale of working interest in Syncrude	–	(9.0)	–
Amortization of exchange losses (gains)	20.4	54.8	(10.9)
Corporate restructuring charges	–	–	90.0
Other exchange losses (gains)	76.7	(8.2)	15.0
Amortization of the discount of the present value of the restructuring charges	30.7	61.2	40.4
Other	53.6	78.5	55.9
	$ 24.4	$ 25.9	$ 129.7

6. Income Tax Expense (Recovery)

(in millions)	1997	1996	1995
Canadian			
Current	$ 104.7	$ 80.4	$ 47.1
Deferred	432.0	215.6	(167.8)
	$ 536.7	$ 296.0	$ (120.7)
Foreign			
Current	$ 27.0	$ 13.6	$ 6.9
Deferred	(6.7)	10.1	(52.2)
	$ 20.3	$ 23.7	$ (45.3)
Total			
Current	$ 131.7	$ 94.0	$ 54.0
Deferred	425.3	225.7	(220.0)
	$ 557.0	$ 319.7	$ (166.0)

The deferred income tax expense (recovery) arose from the following:

	1997	1996	1995
Excess of tax over book depreciation	$ 176.6	$ 97.0	$ 88.3
Exploration and development allowances in excess of depletion	99.5	41.7	51.3
Losses tax affected	(88.0)	(207.0)	(122.6)
Tax losses utilized	161.9	109.3	182.8
Write-down of assets and restructuring costs	6.8	–	(459.0)
Reduction in restructuring accruals	54.7	84.8	35.3
Other	13.8	99.9	3.9
	$ 425.3	$ 225.7	$ (220.0)

The difference between the income tax expense (recovery) and the provision obtained by applying the statutory tax rate is as follows:

	1997	1996	1995
Provision at Canadian statutory rates	$ 691.6	$ 541.4	$ (173.8)
Depletion and resource allowances	(105.2)	(115.0)	(92.4)
Foreign tax rate differentials	(76.2)	(51.0)	(43.3)
Royalties and mineral reserve tax	53.7	62.4	51.0
Losses (gains) not tax affected	22.8	(44.7)	54.6
Previously unrecognized loss carryforwards utilized	(116.5)	(141.9)	(5.2)
Large corporation tax	21.0	19.8	17.2
Non-deductible amortization of excess of acquisition cost over book value	5.9	5.9	5.9
Capital gains rate differential	–	3.0	–
Other	59.9	39.8	20.0
Income tax expense (recovery)	$ 557.0	$ 319.7	$ (166.0)

7. Discontinued Operations

The Corporation completed the sale of its interest in Laidlaw Inc. ("Laidlaw") in July 1997. The interest was sold by means of Laidlaw Share Purchase Rights, represented by instalment receipts. The first instalment of $9.45 per share was received on closing and the final instalment of $9.40 per share is receivable in early July 1998. Net proceeds from the sale amounted to $990.8 million, and resulted in a gain of $271.5 million.

On September 30, 1996, the Corporation completed the sale of the Canadian assets of its wholly-owned real estate subsidiaries, Marathon Realty Company Limited and Centrixx Realty Holdings Limited, collectively "Marathon", at a price of approximately $952 million, including assumed debt. The sale of Marathon's U.S. shopping center portfolio was also completed for gross proceeds of U.S. $319 million. No gain was booked on the sale of the real estate assets.

On and around December 15, 1995, the Corporation delivered virtually all of its remaining United Dominion Industries Limited ("United Dominion") Common Shares in exchange for the 8.50% Equity Exchangeable Debentures.

In late September 1995, a restructuring agreement was announced, which resulted in the Corporation no longer holding an equity interest in Unitel Communications Holdings Inc. ("Unitel"). The Corporation wrote off its investment in Unitel.

On September 26, 1994, the Corporation sold the remaining divisions of its CP Trucks business.

The results of discontinued operations are summarized below:

(in millions)	1997
	Laidlaw
Equity in income	**$ 37.6**
Gain on disposal	**271.5**
Income tax expense	**–**
Income from discontinued operations	**$ 309.1**

(in millions)		1996	
	Laidlaw	Marathon	Total
Revenues	$ –	$ 237.9	$ 237.9
Operating income	–	81.9	81.9
Interest expense, net	–	85.0	85.0
Non-operating income	–	(2.2)	(2.2)
Loss before income taxes, minority interest and equity in income	–	(0.9)	(0.9)
Income tax expense	–	2.8	2.8
Minority interest share of income of subsidiaries	–	1.3	1.3
Loss before equity in income	–	(5.0)	(5.0)
Equity in income	34.1	–	34.1
Net income (loss)	34.1	(5.0)	29.1
Gain (loss) on disposal	–	–	–
Income tax expense	–	–	–
Income (loss) from discontinued operations	$ 34.1	$ (5.0)	$ 29.1

7. Discontinued Operations (cont'd)

(in millions)	1995				
	Laidlaw	Marathon	Unitel	CP Trucks	Total
Revenues	$ –	$ 420.1	$ –	$ –	$ 420.1
Operating loss	–	(417.0)	–	–	(417.0)
Interest expense, net	–	134.1	–	–	134.1
Non-operating expense	–	0.7	–	10.0	10.7
Loss before income taxes, minority interest and equity in income	–	(551.8)	–	(10.0)	(561.8)
Income tax recovery	–	(198.5)	–	–	(198.5)
Minority interest share of income of subsidiaries	–	1.9	–	–	1.9
Loss before equity in income	–	(355.2)	–	(10.0)	(365.2)
Equity in income (loss)	27.6	–	(127.3)	–	(99.7)
Net income (loss)	27.6	(355.2)	(127.3)	(10.0)	(464.9)
Loss on disposal	–	–	(86.7)	–	(86.7)
Income tax recovery	–	–	(21.1)	–	(21.1)
	–	–	(65.6)	–	(65.6)
Income (loss) from discontinued operations	$ 27.6	$ (355.2)	$ (192.9)	$ (10.0)	$ (530.5)

The results of discontinued operations are after deductions for depreciation and amortization of $35 million in 1996 and $94 million in 1995.

Financing activities for discontinued operations are:

(in millions)	**1997**	1996	1995
Issuance of long term debt	**$ –**	$ 36.3	$ 294.4
Repayment of long term debt	**–**	(115.4)	(399.1)
Redemption of shares by subsidiaries	**–**	(25.4)	–
	$ –	$ (104.5)	$ (104.7)

Investing activities for discontinued operations are:

(in millions)	**1997**	1996	1995
Business acquisitions and investments	**$ –**	$ –	$ (47.3)
Additions to properties	**–**	(43.9)	(144.4)
Sales of businesses, investments and properties	**–**	99.5	316.7
Other investing activities	**–**	9.8	40.0
	$ –	$ 65.4	$ 165.0

8. Changes in Non-cash Working Capital Balances

(in millions)	1997	1996	1995
(Increase) decrease in current assets:			
Accounts receivable	$ (273.1)	$ (349.8)	$ (99.6)
Instalment receipts	(632.0)	–	–
Inventories	(23.1)	(18.8)	6.2
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities	680.5	96.4	198.9
Income and other taxes payable	(14.6)	23.9	43.7
(Increase) decrease in non-cash working capital balances during the year	(262.3)	(248.3)	149.2
Decrease (increase) in non-cash working capital balances relating to write-down of assets and restructuring costs	–	47.3	(349.2)
Increase in non-cash working capital balances relating to reduction in restructuring accruals	83.5	184.1	89.1
Non-cash working capital balances of businesses acquired	(155.1)	–	(45.7)
Increase in non-cash working capital balances relating to discontinued operations	–	10.3	52.4
Other changes in non-cash working capital balances not relating to continuing operations (mainly from/to current assets/liabilities to/from long term assets/liabilities)	26.1	(128.3)	(16.1)
Increase in non-cash working capital balances relating to continuing operations	$ (307.8)	$ (134.9)	$ (120.3)

9. Business Acquisitions and Investments

Expenditures on business acquisitions and investments comprise the following:

(in millions)	1997	1996	1995
Acquisition of shipping companies and other	$ 232.3	$ 84.7	$ 104.1
Acquisition of CS Resources Limited	465.9	–	–
	$ 698.2	$ 84.7	$ 104.1

On October 29, 1997, Canadian Pacific acquired 100% of the issued and outstanding shares of Contship Containerlines Limited and on July 29, 1997, acquired the assets of Lykes Lines, as part of Lykes Chapter 11 bankruptcy reorganization. The total acquisition cost of these two container shipping businesses and other minor acquisitions amounted to $232.3 million. The excess of total cost over book value, which includes restructuring and other costs, amounted to $333.2 million . It has been allocated to goodwill and is being amortized over 35 years. The results of the shipping acquisitions have been included in the Transportation segment, under CP Ships, from the dates of acquisition.

Effective July 15, 1997, Canadian Pacific acquired 100% of the issued and outstanding shares of CS Resources Limited for $465.9 million. The results of CS Resources Limited have been included in the Energy segment, under PanCanadian Petroleum Limited, from the date of acquisition.

9. Business Acquisitions and Investments (cont'd)

The acquisitions have been accounted for as follows:

(in millions)	CS Resources	Other	Total
Assets Acquired:			
Net current assets	$ 14.0	$ –	$ 14.0
Investments	–	47.1	47.1
Net property, plant and equipment	537.6	76.6	614.2
Goodwill	–	333.2	333.2
	551.6	456.9	1,008.5
Liabilities Acquired:			
Net current liabilities	–	(162.1)	(162.1)
Long term debt	(57.0)	(62.5)	(119.5)
Other long term liabilities	(28.7)	–	(28.7)
Total acquisition cost	$ 465.9	$ 232.3	$ 698.2

On March 31, 1995, the Corporation completed the purchase of the container shipping business of the Cast group. Total cost of acquisition amounted to $95 million (net of an $11 million cash position of Cast at acquisition). The excess of total cost over book value, which amounted to $129.1 million, has been allocated to goodwill and is being amortized over 20 years. The results of Cast have been included in the Transportation segment, under CP Ships, from the date of acquisition.

10. Inventories

(in millions)	1997	1996
Rail materials and supplies	$ 173.0	$ 188.3
Raw materials and work in progress	38.1	23.9
Finished goods	132.3	115.8
Stores and materials	58.8	51.1
	$ 402.2	$ 379.1

11. Investments

(in millions)	1997	1996
Accounted for on the equity basis:		
Laidlaw Inc.	$ –	$ 696.7
CNCP Niagara-Detroit Partnership	40.1	43.3
Legacy Hotels	99.9	–
Other	74.5	51.3
Accounted for on the cost basis	91.6	89.8
	$ 306.1	$ 881.1

12. Properties and Accumulated Depreciation, Depletion and Amortization

(in millions)	1997			1996
	Cost	Accumulated, Depreciation, Depletion and Amortization	Net	Net
Transportation				
CP Railway	$ 9,804.8	$ 3,683.1	$ 6,121.7	$ 5,775.7
CP Ships	511.8	187.7	324.1	202.4
	10,316.6	3,870.8	6,445.8	5,978.1
Energy				
PanCanadian Petroleum Limited	9,089.2	4,216.0	4,873.2	3,828.0
Fording Inc.	1,278.3	423.0	855.3	696.8
	10,367.5	4,639.0	5,728.5	4,524.8
Hotels				
Canadian Pacific Hotels & Resorts Inc.	594.0	164.8	429.2	926.7
Other	223.0	28.0	195.0	232.3
	$ 21,501.1	$ 8,702.6	$ 12,798.5	$ 11,661.9

13. Other Assets and Deferred Charges

(in millions)	1997	1996
Unamortized exchange loss	$ 160.7	$ 118.4
Goodwill, net of amortization	456.2	132.2
Prepaid pension cost	151.6	143.5
Long term receivables and deposits	101.5	63.1
Unamortized discount on long term debt and issue costs	11.3	14.5
Deferred charges	67.0	65.4
Other	62.3	55.3
	$ 1,010.6	$ 592.4

14. Long Term Debt

(in millions)	1997	1996
Canadian Pacific Railway Company		
6.875%-9.45% Debentures due 2003-2022	$ 1,072.5	$ 1,027.5
Perpetual 4% Consolidated Debenture Stock	59.6	57.2
Obligations under capital leases due 1998-2014	266.4	248.0
CP Ships		
Obligations under capital leases due 1998-2008	61.0	–
PanCanadian Petroleum Limited		
7.5%-8.4% medium term notes due 2001-2006	486.0	474.0
8.75%-10.55% Debentures due 2000-2005	350.0	350.0
Commercial paper	50.5	–
Bank loans	36.8	31.4
Other long term financing	44.3	42.5
Canadian Pacific Limited		
10.5% Debentures due 2001	250.0	250.0
Canadian Pacific Enterprises Limited		
Bank term loans due 1999-2000	–	685.0
8.67% Debentures due 1998	27.5	52.8

14. Long Term Debt (cont'd)

(in millions)	1997	1996
Canadian Pacific Securities Limited		
10.75%-11.6% Guaranteed Debentures due 1999-2026	$ 147.8	$ 201.2
Other	3.2	22.2
	2,855.6	3,441.8
Less: Long term debt maturing within one year	169.6	786.7
	$ 2,686.0	$ 2,655.1

The Corporation's and CP Railway's debentures are unsecured, but carry a negative pledge. U.S. $250 million of CP Railway's debentures are callable starting in 2002 at a premium which declines over time.

CP Railway, through a number of interest rate swaps, converted U.S. $295 million of its long term debt with fixed interest rates from 7.51% to 7.68% into floating interest rates based on U.S. LIBOR and $40.8 million of its long term debt with fixed interest rates from 7.93% to 8.10% into floating based on Bankers' Acceptance rates.

CP Railway's Perpetual 4% Consolidated Debenture Stock constitutes a first charge upon and over the whole of the undertaking, railways, works, rolling stock, plant, property and effects of CP Railway, with certain exceptions.

CP Railway's obligations under capital leases bear fixed interest rates which vary from 6.85% to 12.7%.

A series of forward foreign currency exchange, interest rate swap and cross currency interest rate swap transactions have been entered into with respect to PanCanadian Petroleum Limited's ("PanCanadian") 10.55% Debentures due 2000 amounting to $150 million, which result in an effective interest rate of 8.34% on U.S. $109.5 million.

With respect to U.S. $ 100 million of PanCanadian's medium term notes with a fixed interest rate of 7.645%, an interest rate swap transaction was entered into and subsequently canceled and an option was sold but never exercised, resulting in an effective interest rate of 6.49%. PanCanadian, through a series of interest rate and cross-currency interest rate swaps, converted another $100 million of medium term notes with a fixed interest rate of 8.4% into U.S. $73.1 million with an effective interest rate of U.S. three-month LIBOR minus 31 basis points, and converted a further $100 million of medium term notes with a fixed interest rate of 7.5% into $50 million with an effective rate of 5.64% and $50 million with an effective rate of 5.95%.

PanCanadian's debentures and medium term notes are unsecured, but carry a negative pledge.

At December 31, 1997, foreign currency long term debt, denominated principally in U.S. dollars, amounted to $1,786.1 million (1996 – $2,347.1 million).

Annual maturities and sinking fund requirements for each of the five years following 1997 are: 1998 – $169.6 million; 1999 – $86.7 million; 2000 – $201.3 million; 2001 – $419.4 million; 2002 – $163.4 million.

In addition to the financial instruments associated with the long term debt referred to above, the Corporation and a number of its subsidiaries are parties with major financial institutions to other financial instruments with off-balance sheet risk as discussed below.

Commodity Instruments

Exposure to changing crude oil prices is hedged using New York Mercantile Exchange's ("NYMEX") West Texas Intermediate ("WTI") futures contracts and fluctuating differentials for crude oil quality are hedged using over the counter ("OTC") financial instruments. As at December 31, 1997 Canadian Pacific has sold forward, primarily using NYMEX WTI futures contracts, approximately 11.2 million barrels of crude oil for delivery in 1998 for an average price of U.S. $19.46 per barrel, and OTC financial instruments are in place which fix the heavy oil differential at U.S. $4.71 per barrel on 3.3 million barrels for 1998. Exposure to changing natural gas prices is hedged using NYMEX natural gas futures contracts and OTC financial instruments. As at December 31, 1997, the unrealized gain related to commodity instruments was $39.5 million.

14. Long Term Debt (cont'd)

Forward Foreign Currency Exchange Contracts

Exposure to changes in the Cdn./U.S. dollar exchange rate on future commodity revenue streams and long term debt denominated in U.S. dollars is managed by selling or purchasing forward U.S. dollars at fixed rates in future periods. As at December 31, 1997, Canadian Pacific had entered into foreign exchange contracts to sell approximately U.S. $6,071.6 million at rates ranging from 1.29 to 1.48 over the years 1998 – 2003 and to purchase U.S. $30 million at 1.44 during 1998. As at December 31, 1997, the unrealized loss on forward foreign currency exchange contracts not recognized in income was $189 million.

Interest Rate Swaps

In addition to the interest rate swaps associated with the long term debt described above, Canadian Pacific has entered into approximately $714.7 million of interest rate swap agreements, maturing in years 1998 to 2005, to revise the effective interest payable on certain intercompany debt.

Credit Risk Management

Canadian Pacific is exposed to credit losses in the event of non-performance by counterparties to financial instruments; however, Canadian Pacific does not anticipate such non-performance because of dealing with counterparties of high credit quality. In addition, Canadian Pacific does not believe that there are any significant concentrations of credit risk.

Interest Rate Exposure and Fair Values

Canadian Pacific's exposure to interest rate risk along with the total carrying amounts and fair values of its financial instruments are summarized in the following table:

(in millions)

		Fixed Interest Rate Maturing In:					
	Floating Interest Rate	Less Than One Year	One to Five Years	More Than Five Years	Non-Interest Bearing	Total Carrying Value	Fair Value
Financial Assets							
Cash and short term investments	$ 599.2	$ –	$ –	$ –	$ –	$ 599.2	$ 599.2
Instalment receipts	–	–	–	–	632.0	632.0	632.0
Accounts receivable	–	–	–	–	1,583.3	1,583.3	1,583.3
Other assets	–	–	–	–	101.5	101.5	101.5
Financial Liabilities							
Bank loans	(154.8)	–	–	–	–	(154.8)	(154.8)
Accounts and other payables	–	–	–	–	(2,826.6)	(2,826.6)	(2,826.6)
Long term debt	(95.0)	(65.9)	(861.2)	(1,833.5)[1]	–	(2,855.6)	(3,133.0)
Derivative Instruments							
Interest rate swaps relating to long term debt on balance sheet	(662.7)	–	–	662.7	–	–	42.0
Other interest rate swaps	–	–	–	–	–	–	27.5
Forward foreign currency contracts	–	–	–	–	–	–	(189.0)
Commodity instruments	–	–	–	–	–	–	39.5

[1] Includes $59.6 million of Perpetual 4% Consolidated Debenture Stock with no maturity date.

14. Long Term Debt (cont'd)

For 1996, the fair value of short term financial assets and liabilities was estimated to equal the carrying value on the balance sheet. The fair values for 1996 of long term debt, interest rate swaps, forward foreign currency contracts and commodity instruments were $3,673.4 million, $87.5 million, $149.4 million and $(105.6) million respectively.

Canadian Pacific has determined the estimated fair value of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is necessary to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of what Canadian Pacific could realize in a current market exchange. The use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- Short term financial assets and liabilities are valued at their carrying amounts as presented in the Balance Sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of these instruments.
- The fair value of publicly traded long term debt is determined based upon market prices at December 31, 1997. The fair value of other long term debt is estimated based on rates currently available to Canadian Pacific for long term borrowing with similar terms and conditions to those borrowings in place at the balance sheet date.
- The fair value of derivative instruments is estimated as the discounted unrealized gain or loss calculated based on market prices or rates at December 31, 1997, which generally reflects the estimated amounts that Canadian Pacific would receive or pay to terminate the contracts at the balance sheet date. Excluded from the fair value are unrecognized gains or losses on hedge instruments terminated prior to their maturity and gains or losses recognized in income.

15. Deferred Liabilities

(in millions)	1997	1996
Provision for restructuring costs	$ 284.8	$ 399.2
Future removal and site restoration costs	276.2	264.2
Deferred workers' compensation	64.9	80.0
Deferred hedging gains	36.0	46.5
Information technology costs	54.0	–
Deferred revenue	36.7	–
Unrealized loss on forward exchange contract	86.4	–
Other	140.6	96.9
	$ 979.6	$ 886.8

16. Deferred Income Credits

Deferred Income Credits include $155.3 million (1996 – $161.1 million) from the Federal Government primarily for the rehabilitation of certain western branch lines, $217.4 million (1996 – $187.6 million) from other bodies, mainly for relocation of railway lines, $61.2 million (1996 – $64.4 million) in investment tax credits and $51.7 million (1996 – $57.3 million) representing the accumulated surplus depreciation (as revealed by a study, in 1993, of the expected economic lives of existing depreciable assets). These amounts are being amortized to income on the same basis as the related properties are being depreciated.

17. Minority Shareholders' Interest in Subsidiary Companies

(in millions)	1997	1996
PanCanadian Petroleum Limited	$ 349.2	$ 320.2
Other	1.4	1.4
	$ 350.6	$ 321.6

18. Shareholders' Equity

The Corporation's articles were amended on July 4, 1996, to change the classes and number of shares authorized for issuance to an unlimited number of Common Shares and an unlimited number of First Preferred Shares and Second Preferred Shares.

Also on July 4, 1996, the Corporation completed an arrangement under Section 192 of the Canada Business Corporations Act with Canadian Pacific Railway Company ("Old CPL") in connection with a reorganization (the "Reorganization") which resulted in the Corporation becoming the parent corporation of Old CPL, CP Ships Inc., PanCanadian Petroleum Limited, Fording Coal Holdings Inc., and Canadian Pacific Hotels & Resorts Inc. As part of the Reorganization, the Ordinary Shares of Old CPL were exchanged for Common Shares of the Corporation on a one for one basis and the Preference Shares of Old CPL were converted into Common Shares of the Corporation at a ratio of 4.263 Preference Shares for each Common Share. Holders of Old CPL's Consolidated Debenture Stock elected to either (i) exchange their Consolidated Debenture Stock for cash or Common Shares of the Corporation or (ii) retain their Consolidated Debenture Stock with no change to the terms thereof and with the support of bank letters of credit. Following the Reorganization the Corporation held, directly or indirectly, on a consolidated basis, the same assets and was subject to the same liabilities as Old CPL prior to the Reorganization.

At December 31, 1997 and 1996, no First Preferred Shares or Second Preferred Shares were outstanding. At December 31, 1995, there were 2,561,769 Sterling Preference Shares and 10,696,941 Canadian Dollar Preference Shares outstanding, amounting to $4.2 million and $10.7 million respectively.

An analysis of Common Share balances is as follows:

(in millions)	1997		1996		1995	
	Number	Amount	Number	Amount	Number	Amount
Balance, January 1	346.9	$ 1,814.4	342.3	$ 1,767.7	341.8	$ 1,756.6
New issue	–	–	3.3	19.5	–	–
Issued under dividend reinvestment and share purchase, and stock option plans	0.8	16.6	1.4	29.4	0.5	11.1
Share repurchase plans	(7.0)	(36.6)	(0.1)	(2.2)	–	–
Balance, December 31	340.7	$ 1,794.4	346.9	$ 1,814.4	342.3	$ 1,767.7

The Corporation has a Dividend Reinvestment and Share Purchase Plan which permits participants to acquire new Common Shares of the Corporation by reinvesting cash dividends paid on Common Shares held by them and by investing optional cash payments, to a maximum of $30,000 in any calendar year.

On July 24, 1996 the Corporation entered into a Normal Course Issuer Bid to repurchase up to 10 million of its Common Shares, representing about 3% of its Common Shares then outstanding. In 1997, 1.8 million shares had been repurchased under this plan at a cost of $60.5 million. ($8.1 million charged to Common Share account and $52.4 million charged to Paid-in Surplus account.)

18. Shareholders' Equity (cont'd)

On August 12, 1997, the Corporation announced a Normal Course Issuer Bid to repurchase up to 18 million of its Common Shares, representing about 5.3% of its Common Shares then outstanding. Purchases may be made at market prices on the Toronto, Montreal, Vancouver, Alberta, and the New York stock exchanges over the 12 months following regulatory approvals which were granted in mid-August. As of December 31, 1997, 5.2 million shares had been repurchased under this plan at a cost of $211.5 million. ($28.5 million charged to Common Share account and $183 million charged to Paid-in Surplus account.)

Foreign Currency Translation Adjustments:
An analysis of the Foreign Currency Translation Adjustments balance is as follows:

(in millions)	1997	1996	1995
Balance, January 1	**$ 67.6**	$ 204.5	$ 236.0
Effect of exchange rate changes	**26.2**	(13.3)	(31.5)
Release of exchange into income on the repayment of the Perpetual 4% Consolidated Debenture Stock	**–**	(101.0)	–
Discontinued operation	**(16.8)**	(22.6)	–
Balance, December 31	**$ 77.0**	$ 67.6	$ 204.5

19. Stock options

Under the Corporation's stock option plan, options may be granted to certain key employees to purchase Common Shares of the Corporation at a price not less than the market value of the shares at the grant date. Each option may be exercised after two years in respect of one-half of the number of shares to which it relates and after three years in respect of the balance. Options expire ten years after the grant date.

Simultaneously, with the grant of an option, employees are also granted Share Appreciation Rights ("SARs") equivalent to one-half the number of shares to which each option relates. A SAR entitles the holder to receive payment of an amount equal to the excess of the market value of a Common Share at the time of exercise of the SAR over the related option price. SARs may be exercised no earlier than three years and no later than ten years after the grant date.

Where an option has been exercised as to one-half the number of shares to which it relates, any further exercise reduces the number of SARs granted on a one-for-one basis. At all times the exercise of a SAR reduces the number of shares covered by an option on a one-for-one basis.

In the event of a change in control of the Corporation, all outstanding options and SARs become immediately exercisable.

In 1997, 4,007,451 shares (1996 – 5,660,459) were available for the granting of future options under the stock option plan out of the 12,000,000 Common Shares originally authorized.

At December 31, 1997, options covering 5,004,702 Common Shares (1996 – 4,479,064) were outstanding. These options expire in the years 1998 to 2007 and are exercisable at prices ranging from $16.125 to $40.150 per share.

	1997	1996
Outstanding at beginning of year	**4,479,064**	5,920,268
Granted	**2,162,298**	443,400
Exercised	**(587,494)**	(1,101,358)
Canceled	**(1,049,166)**	(783,246)
Outstanding at end of year	**5,004,702**	4,479,064

Options covering 2,434,837 (1996 – 2,727,887) Common Shares were exercisable at December 31, 1997, at a weighted average option price of $21.149 (1996 – $20.878) per share.

20. Pensions

The Corporation and the majority of its subsidiaries have defined benefit plans which provide for pensions based principally on years of service and compensation rates near retirement. Annual contributions to these plans, which are based on various actuarial cost methods, are made on the basis of not less than the minimum amounts required by Federal or Provincial pension supervisory authorities.

Net pension expense from continuing operations for the year for such defined benefits plans includes the following components:

(in millions)	1997	1996	1995
Service cost – benefits earned during the year	$ 26.6	$ 27.5	$ 26.9
Interest cost on projected benefit obligation	252.8	334.1	358.9
Actual return on pension fund assets	(566.1)	(747.2)	(555.4)
Net amortization and deferrals	352.7	467.4	265.8
Net pension expense	$ 66.0	$ 81.8	$ 96.2

The following table sets forth the plans' funded status and the amounts recognized in Canadian Pacific's Consolidated Balance Sheet as at December 31:

(in millions)	1997		1996	
	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets	Plans having assets in excess of accumulated benefits	Plans having accumulated benefits in excess of assets
Average present value of benefit obligations:				
Vested	$ 4,344.8	$ 35.1	$ –	$ 4,355.4
Non-vested	7.8	–	–	12.2
Accumulated benefit obligation	4,352.6	35.1	–	4,367.6
Effect of projected future salary increases	398.2	8.4	–	427.9
Projected benefit obligation (based on weighted average discount rate of approximately 8% and a weighted average salary increase of approximately 3%)	4,750.8	43.5	–	4,795.5
Pension fund assets at market related values	4,889.7	31.3	–	4,745.7
Pension fund assets greater than (less than) projected benefit obligation	138.9	(12.2)	–	(49.8)
Unamortized portion of net obligation at January 1, 1987*	106.5	3.5	–	129.4
Unamortized prior service cost*	119.4	9.6	–	145.6
Unamortized net (gain) loss*	(215.4)	1.3	–	(81.7)
Prepaid pension cost in Consolidated Balance Sheet	$ 149.4	$ 2.2	$ –	$ 143.5

*Being amortized over expected average remaining service lives of employees, generally 14 years.

20. Pensions (cont'd)

Pension fund assets consist primarily of listed stocks and bonds. The assumed weighted average long term rate of return on pension fund assets is approximately 8%.

Canadian Pacific also has subsidiary-sponsored defined contribution plans. Pension expense from continuing operations for such plans, which generally equals the employer's required contribution, was $8.5 million, $8 million and $4.6 million in 1997, 1996, and 1995, respectively.

In addition to pension benefits, the Corporation and several of its subsidiaries provide health care and life insurance benefits for certain retired employees. The cost of providing these benefits is recognized by expensing the annual insurance premiums which were approximately $10 million, $13 million and $12 million in 1997, 1996, and 1995, respectively.

21. Commitments and Contingencies

At December 31, 1997, commitments for capital expenditures amounted to $726.6 million and minimum payments under operating leases and gas pipeline transportation agreements were estimated at $3,373.1 million in the aggregate, with annual payments in each of the five years following 1997 of: 1998 – $716.4 million; 1999 – $594 million; 2000 – $435.9 million; 2001 – $313 million; 2002 – $231.6 million.

At December 31, 1997, unused lines of credit for short term and long term financing, subject to periodic review, repayable on demand and at various maturities, amounted to $1,064.8 million on which interest rates vary with bank prime or money market rates.

22. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1997.

23. Supplementary Data

The discussion of Canadian and United States accounting principles and the reconciliation of net income between United States and Canadian generally accepted accounting principles for the years included in Supplementary Data are an integral part of these financial statements.

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission ("SEC") of the United States.

Canadian and United States Accounting Principles

The consolidated financial statements of Canadian Pacific have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between Canadian and United States GAAP. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on Canadian Pacific's operating income and net income is summarized on the following page. The effect on the Statement of Changes in Consolidated Financial Position is not significant, except that dividends are treated as a financing activity in the Statement of Changes in Consolidated Financial Position under United States GAAP. The significant effect on the Consolidated Balance Sheet, had it been prepared under United States GAAP, would be a decrease of other assets and retained income by approximately $195.2 million and $37.9 million, respectively, and an increase of net properties and deferred liabilities of $204.5 million and $36.2 million, respectively.

During 1997, new capitalization and reporting policies were adopted in order to present the railway results on a basis consistent with other North American railways. In accordance with Canadian GAAP, the effect of the changes (described in Note 2) has been applied retroactively and the financial statements of prior periods have been restated. Under United States GAAP such restatements are not acceptable and the cumulative effect of the change, based on retroactive computation, is included in net income of the period of the change.

The full cost methods of accounting for conventional oil and gas operations promulgated under Canadian and United States GAAP differ in the following respect. Ceiling test calculations are performed by comparing the net book value of conventional petroleum and natural gas properties with the future net revenues expected to be generated from proven developed reserves, discounted at ten percent for United States reporting purposes, and undiscounted for Canadian reporting. Any excess of net book value over future net revenues is recognized as additional depletion expense in both reporting jurisdictions.

Canadian Pacific follows the Canadian method of accounting for income taxes, described as the deferral method, focusing on differences arising between financial statement income and taxable income. The method followed under United States GAAP, described as the liability method, focuses on differences between the book and tax value of assets and liabilities. In Canada, the income taxes are recorded using tax rates and regulations applicable in the year and are not changed in future years even though tax rates and regulations may change. In the United States, the tax liability is calculated using enacted future tax rates and regulations and is adjusted in future years if those tax rates and regulations are changed.

Canadian Pacific follows the Canadian practice of deferring and amortizing unrealized exchange gains and losses related to long term monetary foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

The principal difference between Canadian and United States GAAP in accounting for pension costs is in the choice of discount rate used for computing the benefit obligation and the service and interest cost components of net periodic pension expense. Under Canadian GAAP, the discount rate used represents management's best estimate of the long term rate of return on pension fund assets, whereas under United States GAAP the discount rate reflects the rate at which pension benefits can be effectively settled at the date of the financial statements. The impact of this difference on Canadian Pacific's pension expense is included in the following table. The impact of the difference on the funded status of Canadian Pacific's plans is not material.

Canadian Pacific follows the Canadian practice of expensing cost related to post retirement health care and life insurance benefits when they are paid, whereas under the United States accounting standard these costs, based on the terms of the plan, are recognized on an accrual basis during the years the plan participants provide the services.

As a result of previous differences between Canadian and United States GAAP, the carrying value of assets disposed of as discontinued differed and consequently gains and losses on disposal differ.

Canadian and United States Accounting Principles (cont'd)

For the Year ended December 31 (in millions, except amounts per share)	1997	1996	1995
Operating income (loss)			
Canadian GAAP	$ 1,765.7	$ 1,467.0	$ (38.5)
United States GAAP	2,430.8	1,450.1	(148.8)
Income (loss) from continuing operations			
Canadian GAAP	946.7	840.0	(256.4)
United States GAAP	1,317.1	884.0	(313.8)
Net income (loss)			
Canadian GAAP	1,255.8	869.1	(786.9)
United States GAAP	1,626.2	1,071.0	(716.3)
Earnings (loss) per Common Share			
Income (loss) from continuing operations:			
Canadian GAAP	2.74	2.44	(0.75)
United States GAAP	3.81	2.57	(0.92)
Net income (loss):			
Canadian GAAP	3.64	2.52	(2.30)
United States GAAP	4.71	3.11	(2.10)

The following is a reconciliation of net income (loss) under Canadian GAAP to net income (loss) under United States GAAP:

	1997	1996	1995
Net income (loss) – Canadian GAAP	$ 1,255.8	$ 869.1	$ (786.9)
Increased or (decreased) by:			
Oil and gas	0.9	12.1	8.3
Deferred income taxes	33.7	13.2	(18.1)
Foreign exchange	(28.1)	42.2	22.9
Pension costs	19.5	28.1	(27.1)
Post retirement benefits	(4.4)	(5.3)	(4.9)
Prior period adjustment – Canadian GAAP (Note 2)*	323.2	–	–
Reverse restatement due to change in accounting policy (Note 2)	–	(40.0)	(36.6)
Other	25.6	(6.4)	(1.9)
Discontinued operations	–	158.0	128.0
Net income (loss) – United States GAAP	$ 1,626.2	$ 1,071.0	$ (716.3)

1255.8
309.1
946.7

1317.1

Quarterly Financial Information (unaudited)
Statement of Consolidated Income

For the three months ended (in millions, except amounts per share)	1997 March 31	June 30	Sept. 30	Dec. 31
Revenues	$ 2,184.5	$ 2,279.2	$ 2,354.1	$ 2,742.2
Cost and Expenses:				
Cost of goods sold and services	1,416.9	1,343.9	1,386.6	1,682.5
Selling, general and administrative	237.4	245.5	244.4	274.4
Depreciation, depletion and amortization	224.2	227.4	247.0	264.1
	1,878.5	1,816.8	1,878.0	2,221.0
Operating income	306.0	462.4	476.1	521.2
Interest expense, net	53.0	49.6	43.9	48.3
Non-operating (income) expense	15.0	21.7	13.7	(26.0)
Income before income taxes and minority interest	238.0	391.1	418.5	498.9
Income tax expense	60.6	133.7	151.7	211.0
Minority interest share of income of subsidiaries	18.1	9.2	6.3	9.2
Income from continuing operations	159.3	248.2	260.5	278.7
Discontinued operations	23.2	14.4	271.5	–
Net income	$ 182.5	$ 262.6	$ 532.0	$ 278.7
Earnings per Common Share:				
Income from continuing operations	$ 0.46	$ 0.72	$ 0.75	$ 0.81
Net income	$ 0.53	$ 0.76	$ 1.54	$ 0.81

Operating income includes a gain on sale of KCCL in the second quarter of $54 million, and gains on sale of Molson Centre lease of $37.8 million and a portion of the St. Lawrence & Hudson line of $42.3 million in the fourth quarter.

Non-operating income for the fourth quarter includes a $211 million gain on sale of business hotels, and a $140 million provision for hedging losses and information technology costs.

Income tax expense for the fourth quarter includes a $35 million general tax provision.

Quarterly Financial Information (unaudited)
Statement of Consolidated Income

For the three months ended (in millions, except amounts per share)	1996 March 31	June 30	Sept. 30	Dec. 31
Revenues	$ 2,048.1	$ 1,990.9	$ 2,017.2	$ 2,415.1
Cost and Expenses:				
Cost of goods sold and services	1,301.7	1,134.5	1,150.3	1,435.3
Selling, general and administrative	252.2	252.2	244.8	253.9
Depreciation, depletion and amortization	222.7	261.0	223.3	272.4
	1,776.6	1,647.7	1,618.4	1,961.6
Operating income	271.5	343.2	398.8	453.5
Interest expense, net	58.0	64.8	59.3	53.2
Non-operating (income) expense	22.2	(13.0)	(53.8)	70.5
Income before income taxes and minority interest	191.3	291.4	393.3	329.8
Income tax expense	40.8	98.7	118.7	61.5
Minority interest share of income of subsidiaries	11.4	8.8	9.6	16.3
Income from continuing operations	139.1	183.9	265.0	252.0
Discontinued operations	(2.3)	10.5	7.4	13.5
Net income	$ 136.8	$ 194.4	$ 272.4	$ 265.5
Earnings per Common Share:				
Income from continuing operations	$ 0.41	$ 0.53	$ 0.77	$ 0.73
Net income	$ 0.40	$ 0.56	$ 0.79	$ 0.77

Operating income for the third quarter includes a gain on the sale of an equity investment in a rail industry insurance association of $16.7 million.

Non-operating income for the third quarter includes a gain of $120.4 million on repayment of the Perpetual 4% Consolidated Debenture Stock and a charge of $30 million to reflect a reduction in the discount rate on previous restructuring accruals, and for the second quarter, includes a gain of $31 million on the sale of shares of Doubletree Corporation.

Income tax expense for the third quarter includes a $25 million general tax provision.

Ten-Year Summary

(dollars in millions, except amounts per share)	1997	1996	1995	1994
Revenues				
Continuing operations	$ 9,560.0	$ 8,471.3	$ 7,331.3	$ 6,367.1
Operating income (loss) from:				
Transportation	$ 947.7	$ 713.9	$ (618.3)	$ 453.1
Energy	681.7	637.3	482.9	505.8
Hotels	136.3	115.8	96.9	72.7
	$ 1,765.7	$ 1,467.0	$ (38.5)	$ 1,031.6
Income (loss) from continuing operations	$ 946.7	$ 840.0	$ (256.4)	$ 485.6
Net income (loss)	$ 1,255.8	$ 869.1	$ (786.9)	$ 427.7
United States GAAP				
Income (loss) from continuing operations	$ 1,317.1	$ 884.0	$ (313.8)	$ 414.3
Net income (loss)	$ 1,626.2	$ 1,071.0	$ (716.3)	$ 289.0
Total assets	$ 17,331.9	$ 15,805.9	$ 16,555.7	$ 17,368.7
Total capitalization				
Total long term debt	$ 2,796.0	$ 3,384.6	$ 4,909.8	$ 4,883.8
Perpetual 4% Consolidated Debenture Stock	59.6	57.2	186.6	194.5
Minority shareholders' interest in subsidiary companies	350.6	321.6	311.1	291.1
Shareholders' equity	7,573.4	6,727.8	6,129.9	7,060.9
	$ 10,779.6	$ 10,491.2	$ 11,537.4	$ 12,430.3
Per Common Share				
Income (loss) from continuing operations:				
Canadian GAAP	$ 2.74	$ 2.44	$ (0.75)	$ 1.44
United States GAAP	$ 3.81	$ 2.57	$ (0.92)	$ 1.23
Net income (loss):				
Canadian GAAP	$ 3.64	$ 2.52	$ (2.30)	$ 1.27
United States GAAP	$ 4.71	$ 3.11	$ (2.10)	$ 0.86
Dividends	$ 0.48	$ 0.48	$ 0.36	$ 0.32
Number of Common Shares (in millions)				
Year-end	340.7	346.9	342.3	341.8
Average	345.4	344.4	342.1	337.5
Rate of return on average shareholders' equity	17.6%	13.5%	(11.9%)	6.4%
Debt : equity ratio	26 : 74	33 : 67	44 : 56	41 : 59

	1993	1992	1991	1990	1989	1988
	$ 5,637.2	$ 4,927.4	$ 5,027.6	$ 5,055.8	$ 4,680.0	$ 4,859.1
	$ 390.5	$ (241.5)	$ 101.0	$ 467.1	$ 383.8	$ 621.9
	397.9	321.7	184.5	424.0	297.6	234.4
	57.1	50.0	24.5	58.2	53.9	53.0
	$ 845.5	$ 130.2	$ 310.0	$ 949.3	$ 735.3	$ 909.3
	$ 364.1	$ (108.2)	$ (256.4)	$ 437.9	$ 325.7	$ 439.0
	$ (155.5)	$ (443.2)	$ (878.7)	$ 390.4	$ 780.3	$ 855.2
	$ 398.0	$ (265.1)	$ (384.0)	$ 380.6	$ 311.1	$ 462.5
	$ (117.8)	$ (693.9)	$ (1,037.4)	$ 320.3	$ 768.3	$ 887.6
	$ 17,528.4	$ 20,607.0	$ 20,908.0	$ 20,482.1	$ 19,244.6	$ 17,784.8
	$ 6,063.3	$ 7,715.9	$ 7,215.3	$ 4,564.4	$ 4,256.4	$ 3,836.0
	178.1	172.4	176.4	180.1	162.9	178.1
	265.6	815.2	867.0	1,043.3	1,238.8	1,073.4
	6,242.7	6,490.8	6,883.8	7,962.7	7,897.2	7,369.2
	$ 12,749.7	$ 15,194.3	$ 15,142.5	$ 13,750.5	$ 13,555.3	$ 12,456.7
	$ 1.14	$ (0.34)	$ (0.81)	$ 1.37	$ 1.03	$ 1.42
	$ 1.25	$ (0.83)	$ (1.21)	$ 1.19	$ 0.98	$ 1.50
	$ (0.49)	$ (1.39)	$ (2.76)	$ 1.23	$ 2.46	$ 2.77
	$ (0.37)	$ (2.18)	$ (3.26)	$ 1.00	$ 2.42	$ 2.87
	$ 0.32	$ 0.32	$ 0.63	$ 0.92	$ 0.84	$ 0.68
	319.4	319.1	318.7	318.2	318.2	316.9
	319.2	318.8	318.5	318.5	317.3	309.1
	(2.4%)	(6.6%)	(11.8%)	4.9%	10.2%	12.4%
	49 : 51	52 : 48	49 : 51	35 : 65	33 : 67	32 : 68

Geographic Distribution of Net Property Investment

Properties at Cost, Less Depreciation

At December 31, 1997

(in millions)	Canadian Pacific Railway	CP Ships	PanCanadian Petroleum	Fording	Canadian Pacific Hotels	Other	Total	Percent of Total
Canada								
Atlantic Provinces and Offshore	$ 0.6	$ –	$ 102.7	$ –	$ 1.5	$ 0.5	$ 105.3	1%
Quebec	51.6	48.4	2.0	–	98.9	4.0	204.9	2%
Ontario	896.9	0.2	46.3	–	1.6	122.8	1,067.8	8%
Manitoba	325.8	–	0.3	–	–	0.8	326.9	3%
Saskatchewan	450.7	–	588.1	1.3	–	0.6	1,040.7	8%
Alberta	590.9	–	3,822.3	129.3	264.1	10.8	4,817.4	38%
British Columbia	1,306.1	–	123.7	501.9	63.1	37.9	2,032.7	16%
N.W.T., Yukon	–	–	19.0	–	–	–	19.0	0%
Transportation Equipment	1,190.9	–	–	–	–	–	1,190.9	9%
	4,813.5	48.6	4,704.4	632.5	429.2	177.4	10,805.6	85%
Outside Canada								
United States	1,308.2	4.0	62.3	62.5	–	12.4	1,449.4	11%
Other	–	136.6	106.5	160.3	–	5.2	408.6	3%
Ocean Ships	–	134.9	–	–	–	–	134.9	1%
	1,308.2	275.5	168.8	222.8	–	17.6	1,992.9	15%
	$6,121.7	$ 324.1	$4,873.2	$ 855.3	$ 429.2	$ 195.0	$12,798.5	100%

Shareholder Information

Common Share Market Prices

Toronto Stock Exchange

	1997 High	1997 Low	1996 High	1996 Low
	(Canadian Dollars)			
First Quarter	**37.60**	**32.65**	28.13	24.50
Second Quarter	**40.35**	**31.80**	30.35	25.70
Third Quarter	**43.45**	**38.30**	32.25	26.75
Fourth Quarter	**43.85**	**35.50**	38.00	30.50
Year	**43.85**	**31.80**	38.00	24.50

New York Stock Exchange

	1997 High	1997 Low	1996 High	1996 Low
	(U.S. Dollars)			
First Quarter	**27.88**	**23.88**	20.75	18.00
Second Quarter	**29.13**	**22.63**	22.25	19.13
Third Quarter	**31.44**	**28.06**	23.50	19.63
Fourth Quarter	**31.69**	**24.75**	28.13	22.63
Year	**31.69**	**22.63**	28.13	18.00

Shareholder Administration

The Trust Company of Bank of Montreal, with transfer facilities in Montreal, Toronto, Calgary, Vancouver and in London, England, through its agent, The Royal Bank of Scotland plc, serves as transfer agent and registrar for the Common Shares. The Bank of Montreal Trust Company serves as transfer agent and registrar for the Common Shares in New York.

For information concerning dividends, or for change in share registration or address, please call the transfer agent and registrar at 1-800-332-0095 or (514) 877-2584, or write to:

The Trust Company of Bank of Montreal
129 Saint-Jacques Street, "A" Level North
Montreal, Quebec H2Y 1L6

Shareholder Services

Shareholders having inquiries or wishing to obtain copies of the Corporation's Annual Information Form should write to:
Shareholder Services
Office of the Corporate Secretary
Canadian Pacific Limited
P.O. Box 6042, Station Centre-ville
Montreal, Quebec H3C 3E4

Market for Securities

The Common Shares of Canadian Pacific Limited are listed on the Montreal, Toronto, Alberta, Vancouver and New York stock exchanges.

Trading Symbol

Toronto and New York stock exchanges – CP

Dividend Reinvestment and Share Purchase Plan

Eligible holders of Canadian Pacific Limited Common Shares may acquire new Common Shares through reinvesting cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained from the Corporation's transfer agent or from Shareholder Services.

Direct Deposit of Dividends

Shareholders are offered the option of having their Canadian dollar dividends directly deposited into their personal bank accounts in Canada on the dividend payment dates. Shareholders receiving their dividends in Canadian currency, as well as those shareholders whose dividends are not reinvested through the Dividend Reinvestment and Share Purchase Plan may obtain a direct deposit enrollment form from the Corporation's transfer agent or from Shareholder Services.

Duplicate Annual Reports

While every effort is made to avoid duplication, some Canadian Pacific Limited registered shareholders may receive multiple copies of shareholder information mailings such as this Annual Report. Registered shareholders who wish to consolidate any duplicate accounts which are registered in the same name are requested to write to the Corporation's transfer agent.

Investor Relations

Institutional investors, brokers, security analysts and others desiring copies of Canadian Pacific's Financial and Operating Information Booklet or other financial information should contact:

Sheila M. McIntosh
Vice-President
Corporate Communications and Investor Relations
Canadian Pacific Limited
1800 Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta T2P 4Z5

Web Site

Visit our web site at www.cp.ca

Effective corporate governance calls for the establishment of processes and structures to ensure the sound direction and management of the Corporation's business with a view to enhancing shareholder value. The Board of Directors believes that the corporate governance practices summarized below are consistent with these objectives.

The Board consists of sixteen directors, fourteen of whom are unrelated. The related directors are the Chairman, President and Chief Executive Officer and a director who is counsel to a law firm that provides legal services to Canadian Pacific. The number of directors constituting the Board has been reduced over the past twelve years from twenty-eight members to its current sixteen. It is expected that the Board will be further reduced to fifteen directors prior to the Annual Meeting of Shareholders on April 21, 1998. The Board believes that this number is appropriate and allows the Board to deliberate effectively.

Although D.P. O'Brien is both Chairman of the Board and Chief Executive Officer of the Corporation, the fact that he occupies both offices does not, in the opinion of the Board, impair its ability to act independently of management. The opinion is based on the proportion of unrelated to related directors and the fact that an unrelated director, the Chairman of the Corporate Governance and Nominating Committee, has been designated lead director.

The Board assumes responsibility for the stewardship of the Corporation and, in discharging that responsibility, it annually reviews and adopts a long-term strategic plan, an annual financial budget, as well as the consolidated financial statements. It also reviews and, where appropriate, approves major acquisitions and dispositions.

The Executive Committee of the Board is composed of a majority of unrelated directors and, between meetings of the Board, exercises the duties and responsibilities of the Board, except those responsibilities which by law, only a board of directors may exercise.

The Board has established six other committees to assist it in carrying out its responsibilities.

The Audit Committee consists entirely of unrelated directors. It is responsible for overseeing the Corporation's internal controls and management information systems, as well as identifying the principal risks of the Corporation's businesses and the systems in place to manage these risks. The committee also reviews with management and with the internal and external auditors the Corporation's financial reporting procedures in connection with the annual audit and the preparation of the financial statements.

The Compensation Committee is composed entirely of unrelated directors. It is responsible for recommending to the Board the fees to be paid to directors and the compensation to be paid to management. It also assesses the performance of the Chief Executive Officer and determines his compensation based on the attainment of objectives set by the Board that are consistent with the Corporation's strategic plan and that are reflected in the performance criteria of the Corporation's short- and long-term incentive plans.

The Corporate Governance and Nominating Committee is composed entirely of unrelated directors and is charged with responsibility for all matters relating to corporate governance. These responsibilities include recommending candidates for nomination, appointment, election and re-election to the Board and its Committees, assessing Board performance, and determining the most appropriate orientation and education program for new Board members. Given that the offices of Chairman and Chief Executive Officer are held by the same person, the Board meets from time to time without management being present. Directors may, in circumstances considered appropriate by this Committee, engage the services of outside advisers at the Corporation's expense.

The Environmental and Safety Committee is composed entirely of unrelated directors. It is responsible for making recommendations to the Board on environmental and safety issues and for making reports to the Board on the effectiveness of the Corporation's response to environmental and safety issues, on the management of risks associated with these issues, and on the implementation of the environmental and safety policy statement adopted by the Board.

The Management Resources Committee, composed entirely of unrelated directors, is responsible for making recommendations to the Board on management succession planning within the Corporation and its major subsidiaries.

The Pension Trust Fund Committee is composed of a majority of unrelated directors. It is responsible for overseeing the operation and administration of the Corporation's pension plans and the investment policies and management of the pension trust funds.

The Board of Directors also appreciates the importance of maintaining effective communication with its shareholders. To this end, it reviews the Corporation's Annual Report, Management's Discussion and Analysis, Management Proxy Circular, Annual Information Form, quarterly financial statements, and press releases on major developments before they are distributed. The Corporation also maintains shareholder and investor relations services to respond to all shareholder inquiries.

Board of Directors

Stephen E. Bachand
President and Chief Executive Officer
Canadian Tire Corporation, Limited
Toronto

[4,6] **Lloyd I. Barber, C.C., S.O.M., Ph.D.**
President Emeritus
University of Regina
Regina

[1,2,4] **Dian Cohen, C.M., LL.D.**
President
Dian Cohen Productions Ltd.
Ayers Cliff, QC

[4] **M. James Fielding**
Chairman of the Board
Alexander Centre Industries Limited
Sudbury

[4] **Ardagh S. Kingsmill, Q.C.**
Counsel, Law Firm of McCarthy Tétrault
Toronto

[4] **The Hon. Peter Lougheed, P.C., C.C., Q.C.**
Partner, Law Firm of Bennett Jones Verchere
Calgary

[1,2,6] **Angus A. MacNaughton**
President
Genstar Investment Corporation
Foster City, CA

[1,3,5,6,7] **John D. McNeil**
Chairman and Chief Executive Officer
Sun Life Assurance Company of Canada
Toronto

[2,3,5,6,7] **Stanley A. Milner, A.O.E., LL.D.**
President and Chief Executive Officer
Chieftain International Inc.
Edmonton

[1,2] **James E. Newall, O.C.**
Vice-Chairman and Chief Executive Officer
NOVA Corporation
Calgary

[5,7] **David P. O'Brien**
Chairman, President and Chief Executive Officer
Canadian Pacific Limited
Calgary

[3,5,7] **James A. Pattison, O.C.**
Chairman, President and Chief Executive Officer
Jim Pattison Group Inc.
Vancouver

[2] **Ronald D. Southern, C.M., C.B.E., LL.D.**
Chairman and Chief Executive Officer
ATCO Ltd. and Canadian Utilities Limited
Calgary

William W. Stinson
Chairman, Executive Committee
United Dominion Industries Limited
Calgary

[3,5,6,7] **Allan R. Taylor, O.C.**
Retired Chairman and Chief Executive Officer
The Royal Bank of Canada
Toronto

[6] **The Rt. Hon. The Viscount Weir**
Chairman
The Weir Group PLC
Glasgow, Scotland

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Member of Corporate Governance and Nominating Committee
[4] Member of Environmental and Safety Committee
[5] Member of Executive Committee
[6] Member of Management Resources Committee
[7] Member of Pension Trust Fund Committee

Directorate
At the Annual Meeting held on May 6, 1997, Mr. William D. Mulholland retired as a director of the Corporation. Mr. Mulholland had been a director for fourteen years and served with distinction on the Audit, Compensation, Corporate Governance and Nominating, Executive, and Pension Trust Fund Committees. The directors desire to recognize the significant contributions made to the affairs of the Corporation by Mr. Mulholland.

Officers

David P. O'Brien
Chairman, President and Chief Executive Officer

Michael A. Grandin
Executive Vice-President and Chief Financial Officer

William R. Fatt
Executive Vice-President

Ronald K. Gamey
Executive Vice-President

Edward J. Dato
Vice-President Corporate

David W. Flicker
Vice-President Law and Corporate Secretary

Sheila M. McIntosh
Vice-President Corporate Communications and Investor Relations

M. Jerry Patava
Vice-President and Treasurer

Norman E. Wale
Vice-President Corporate Research and Development

Canadian Pacific in the Community

Making a Difference

The Canadian Pacific Charitable Foundation is one of the many faces of Canadian Pacific. We've been making a difference in communities across Canada for more than a century. In 1883, Canadian Pacific Railway made a $2,000 donation towards the construction of the Winnipeg General Hospital. A formal donations program was established in 1921 and, in 1994, we set up the Canadian Pacific Charitable Foundation to more effectively target and administer our community investment activities.

"Making a Difference" is the mandate of the Canadian Pacific Charitable Foundation. The Foundation's objective is to promote social responsibility within Canadian Pacific and in communities where Canadian Pacific and its companies operate. The Foundation represents all of Canadian Pacific's wholly-owned companies.

Canadian Pacific is a proud corporate sponsor of the IMAGINE Campaign, established by the Canadian Centre for Philanthropy. IMAGINE's mandate is to encourage personal and corporate giving by donating at least 1% of pre-tax profit to charitable organizations. In 1997, the Canadian Pacific Charitable Foundation made $4.5 million of grants to worthy organizations such as the various United Way/Centraide campaigns, educational organizations, arts and culture groups and hospitals across the country.

Creating Value

Creating value is one of our key objectives – value for us and value for the organizations we support. No matter where we give, we expect our participation to produce a positive and meaningful effect with benefits for all. The Foundation supports organizations that demonstrate good business practices and sustainability, and that enjoy a broad base of support within their communities.

Getting Involved

The opportunity for employees to help in projects and programs we support is a key criterion in determining where we allocate our funds. Furthermore, we look for ways to recognize our employees who volunteer their own time in their communities. In early 1998, the Foundation will launch the Canadian Pacific Employee Grants Program. Canadian Pacific will contribute $500 each year to a non-profit organization where a Canadian Pacific employee volunteers 50 hours or more.

Supporting Communities

Our companies are an integral part of their communities. In recognition of this, the Foundation created the Canadian Pacific Community Action Program which allocates funds for each Canadian Pacific company to make local community contributions. An example in 1997 was a donation for the purchase of an air pressure trauma bed for the Blairmore Hospital in the Crowsnest Pass, near Fording's Coal Mountain mine.

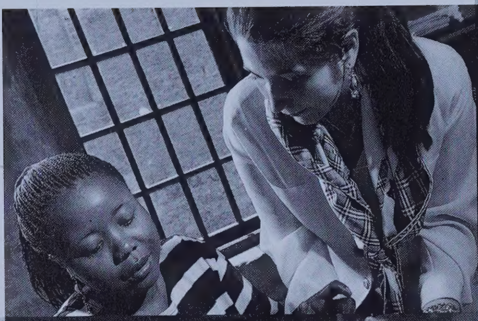
Promoting Partnerships

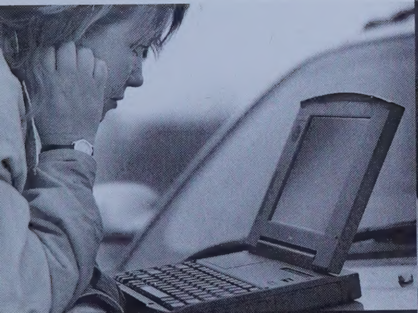
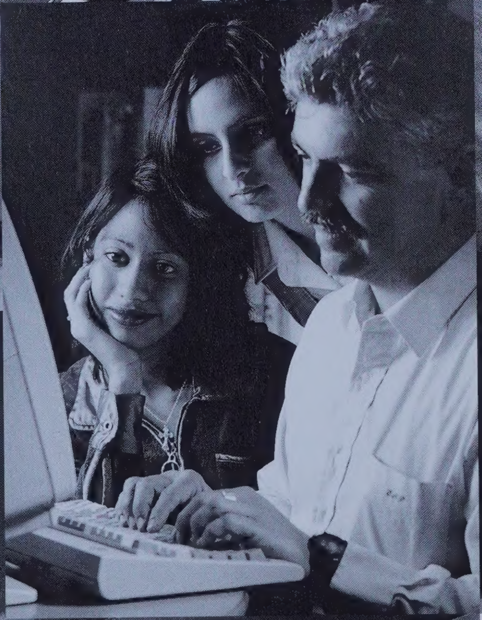
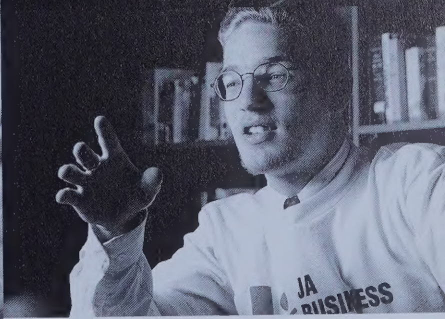
The Foundation looks for innovative ways to make a difference. In 1997, the Canadian Pacific Violence Prevention Fund was created. Administered by the Canadian Women's Foundation, it makes grants to violence prevention and education programs across Canada. This is done in conjunction with Canadian Pacific Hotels' Adopt-A-Shelter Program, a first-of-its-kind national program with each of Canadian Pacific's 26 hotels adopting a local women's shelter and providing used furniture, bedding and a variety of household items on an ongoing basis.

Canadian Pacific also supports a pilot project with Calgary Legal Guidance that provides a weekly legal and emotional support group for victims of spousal assault as they begin to rebuild their lives. No other program in North America utilizes the skills of social workers and lawyers working together in a group setting.

The Salvation Army's national Blankets for the Homeless program has been supported by the Foundation for the past two years. As well as paying for the blankets, in 1997 Canadian Pacific Railway and CP Ships transported some 10,000 to Salvation Army homeless shelters across Canada.

Along with PanCanadian, the Foundation supports the Alberta Ecotrust Foundation, a successful and unique partnership which brings together environmental groups and corporations to fund grassroots environmental projects. Since its creation in 1991, the Ecotrust has distributed over $1 million towards community environmental projects.


glendale
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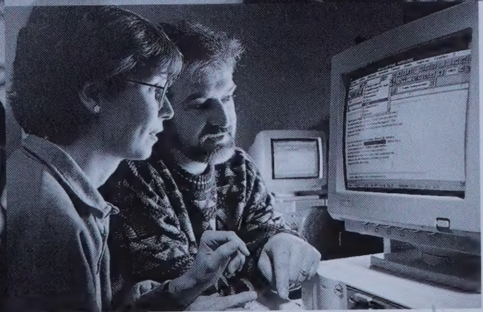


A copy of the 1997 annual report of each of the following businesses can be obtained by writing to its Secretary:

Canadian Pacific Railway Company

Suite 500
Gulf Canada Square
401 – 9th Avenue S.W.
Calgary, Alberta T2P 4Z4

PanCanadian Petroleum Limited

PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta T2P 2S5

Fording Inc.

205 – 9th Avenue S.E.
Calgary, Alberta
T2G 0R4

Canadian Pacific Hotels & Resorts Inc.

One University Avenue
Suite 1400
Toronto, Ontario M5J 2P1

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président, Contentieux et secrétaire général, Canadien Pacifique Limitée, C.P. 6042, succursale Centre-ville, Montréal (Québec) Canada H3C 3E4

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